

# STATE OF THE INTERNATIONAL FINANCIAL SYSTEM

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## HEARING BEFORE THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTH CONGRESS SECOND SESSION

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## STATE OF THE INTERNATIONAL FINANCIAL SYSTEM

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Thursday, March 25, 2004

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, D.C.*

The committee met, pursuant to call, at 10:10 a.m., in Room 2128, Rayburn House Office Building, Hon. Michael G. Oxley [chairman of the committee] Presiding.

Present: Representatives Oxley, Bachus, Royce, Lucas of Oklahoma, Kelly, Paul, Ryun, Ose, Green, Tiberi, Kennedy, Hensarling, Garrett of New Jersey, Brown-Waite, Frank, Waters, Sanders, Maloney, Watt, Carson, Sherman, Lee, Inslee, Moore, Hinojosa, Lucas of Kentucky, Crowley, Israel, Baca, Emanuel, Scott, and Bell.

The CHAIRMAN. The committee will come to order.

We are pleased today to have the distinguished Secretary of the Treasury, Mr. John Snow, testify. Mr. Secretary, welcome back to the committee. It is always good to have you here and to hear from you. We look forward to your testimony on the State of the International Financial System.

This hearing has its origins in the emerging market financial crisis of the late 1990s and subsequent reform of the international financial institutions. The goal was to make the International Monetary Fund, the World Bank, and the regional development banks, more effective at promoting and delivering economic growth, particularly in the emerging markets. Congress exercises its oversight regarding the reform efforts by requiring the Secretary of the Treasury to report annually to Congress. Since the G-7 is integral to reform, we also seek perspective on the G-7 agenda to promote global growth and development policy.

Mr. Secretary, the Treasury Department has engaged in a number of successful international programs over the last year. Let me focus on a few of the more important initiatives:

Fostering global growth. The Treasury Department, under your leadership, has taken a broad view of how to link development, trade, and macro-economic policy to create an environment that can foster global growth. The Treasury's leadership in working with our G-7 allies to craft an international agenda for growth is to be commended. Last week, the Council on Foreign Relations released a study that identified transatlantic economic cooperation as one of the five key ways to strengthen the relationship between the U.S. and the EU. They noted in particular that transatlantic com-

merce approaches \$2.5 trillion per year and employs directly or indirectly some 12 million workers in Europe and the United States.

It is good to see that increased regulatory transparency and coordination have been identified as areas for additional work within the G-7. One area of particular interest in this connection is the U.S./EU regulatory dialogue. Economic growth cannot occur if financial institutions are overburdened with conflicting regulatory standards. I will be particularly interested to learn how the US/EU dialogue can be used to promote growth across the Atlantic and reduce costly regulatory barriers where appropriate.

I note also the importance that remittances can play to degenerate real economic growth in emerging markets throughout the world, not just Latin America. Remittances between established and emerging economies foster growth in both types of economies simultaneously. I will be interested in hearing your views on how unnecessary costs can be eliminated in this area. As you know, this is an issue of importance to this committee. We held a hearing on the issue last fall, and recently some members of this committee sent you and Ambassador Zoellick a letter on the topic.

As for free trade, as you know, I believe firmly that free trade and growth through exports is a fundamental building block for economic prosperity and democracy both at home and abroad. The Treasury Department, through the executive directors at the multinational lending institutions, has encouraged the establishment of programs aimed at creating market-based economies that are open to trade.

At home, the Treasury Department is the lead negotiator for the financial services chapters for all trade agreements. I support your efforts to open markets for our financial services firms and your efforts to create the trade-friendly environments to help emerging market economies grow.

Through the G-7, you have provided leadership and support for countries around the world to move towards flexible market-driven exchange rates. As you know, I co-sponsored H.R. 414 last fall. That resolution promised that Congress would work with the administration to help China move as quickly as possible to a more flexible exchange rate. Since that time, the Treasury Department has dispatched a team of technical experts to advise the government of China, and China has announced that it will move towards a more flexible exchange rate system in 6 years. These are promising developments.

As to performance-based standards for developing programs, your Department has shown great leadership in fostering the development of performance-based standards for development programs both within the World Bank and at home with the Millennium Challenge Account. You have also led the effort to incorporate external audits of performance standards within development institutions. This is particularly positive since appropriations for the multinational institutions are now expressly conditioned on such external audits occurring. We look forward to seeing progress in this area.

As to rebuilding financial systems in Iraq and Afghanistan, again, the Treasury Department and civilian employees have been

among the first and most successful teams on the ground in Iraq and Afghanistan.

No economy can function without reliable banking and payment systems, and your team has helped create new currencies, banking systems, modern payment systems, and free and open capital markets. I congratulate you and your people who work under dangerous conditions to make these things happen.

And, finally, on Argentina and the IMF. Challenges remain, of course. The most critical of these challenges is, once again, Argentina and its relationship to the IMF. Since being cut off from international capital markets, Argentina's economy has grown because it has not been paying its debts. It has been servicing debts to one development institution with payments from another. This sends troubling signals to other sovereign borrowers around the world, especially those who continue to service their debt in good faith. I will be very interested to hear your views on how the Argentine situation can affect the reform debate within the G-7 and the IMF.

And I now yield to the gentleman from Massachusetts for an opening statement.

[The prepared statement of Hon. Michael G. Oxley can be found on page 36 in the appendix.]

Mr. FRANK. Mr. Secretary, this is a hearing on the international financial setting. A number of members obviously have concerns about domestic issues that are equally, if not more, important. I want to mate the two. I support many of the specific proposals that you are making. You are asking us to provide more money for debt relief. The gentlewoman from California, who sits next to me, was one of the leaders in getting the Congress to address this. I was glad to work with her.

I think we aren't doing enough to alleviate the crushing burden of debt on poor people. There is more money for the multilateral development banks which can be, if done well, used very importantly. There is a Millennium Challenge Account. There are a number of very important initiatives here. There is a question of trade, where we would have some differences, but I believe that properly structured trade is very important both for our own economy and for poor people.

The problem is, I believe, that we are in a situation in the United States today where there is enormous public resistance to many of those things which you want. And it is—that is the linkage.

President Kennedy said once talking about his efforts to promote international cooperation, he talked about Franklin Roosevelt, who had initiated the good neighbor policy, a reversal of the policy of America sending the Marines to Latin America, and instead trying to talk about relations of mutual respect. And he said, and President Roosevelt called that the "good neighbor policy." and President Kennedy said Franklin Roosevelt could be a good neighbor abroad because he was a good neighbor at home. That President Roosevelt was able to get the support, he started the reciprocal trade acts and got Congress to give him much more power in the trade area, and began to move into the international area because the American people believed that he was someone who was also looking out for their welfare.

Unfortunately today there are an increasing number of Americans who do not feel that the Federal Government is being a good neighbor at home, and they are therefore resistant to being a good neighbor abroad.

I do not think there are many Members of Congress who did not hear frequently when the question of the \$87 billion appropriation came up last year, why are you sending that money to Iraq? Why don't you keep it here? I don't agree entirely with that formulation. I think we had obligations and have obligations in Iraq. But that sentiment, I have to tell you, I think if you were to come back with another 76 billion, it would be a hard sell. My impression is you are going to have a very hard time getting trade treaties through if you even bring up most of them.

I would anticipate great difficulty if we went forward with some of the requests for the multilateral development banks. And, as I said, the problem is the perception of many Americans that they are not being treated fairly.

Now, much of the argument for the policies you are putting forward, the trade areas certainly, is that these are in the interest of growth for America. Increasingly, there are American workers who do not see growth as benefiting them. And I was struck by your comment last October, and as you know, I discussed this publicly, and it was a very fair comment. In October of last year when you predicted that we would be hitting 200,000 new jobs a month, which we said we have fallen far short of hitting, you said—and I wanted to go back, and I didn't think you just made a random guess. And you said quite reasonably at the time: Everything I know about the American economy says that with the growth we were then getting—and that was at the end of a very good growth quarter. You said: Given this level of growth, we can expect a certain number of jobs.

Well, that was a fair expectation at the time, and it turns out that it is not accurate. Not because you misguessed. You accurately looked it where the economy had been. This economy has changed. The number of jobs that we produce for a given level of growth has, at least temporarily, stopped. We have now got to contemplate the problems of not generating sufficient employment to keep up with the growth of our workforce. We had all assumed that those were largely cyclical. We now have to think about to what extent there is a structural element in that, and we don't—not enough evidence is in for a final conclusion, but enough evidence is in to say this is a question we have to deal with.

But if public policy ignores that question, what you get is a degree of resistance among the American voters and the American citizenry to the very international programs you want to promote.

So I don't want us to stop being a good neighbor abroad. I want us to be a better neighbor. I think we should be doing more with regard to debt relief. I am in favor of the Millennium Challenge Account and kind of want to increase—not maybe with every detail, I want to increase even more what we do there. But I believe we are at a point of great resistance. And unless we can demonstrate to the average American worker that we care more about him or her than they think, we are in trouble.

And as I close, I will just give a couple specifics. Coming here, as you do, and telling us that we should be voting money for these various things which I heartily support while we can't get an extension of unemployment compensation is very counterintuitive. And when you have Americans who are out of work because they are told we can't afford to extend unemployment compensation at a time when unemployment is much higher than we had hoped it would be, but we are going to send these monies overseas, that is exactly what John Kennedy put his finger on, and these two are therefore very closely linked.

The CHAIRMAN. The gentleman's time has expired. The gentleman from California, Mr. Royce.

Mr. ROYCE. Thank you for the opportunity to make a few opening remarks here.

And, Secretary Snow, welcome. For whatever it is worth, I want to say that I think you and your team at the Treasury have been doing an outstanding job on a number of issues. And in the context of today's hearing, my own belief is that Treasury has not received the credit it deserves for your role in negotiating debt relief for the new Iraqi government. James Baker was extremely successful, but that did not just occur overnight. Treasury really tied everything up nicely.

And I was also very encouraged to see the creation of the Office of Terrorism and Financial Intelligence in the Treasury Department.

I believe that Treasury contains the tools and institutional knowledge that are critical for our country's successful war against terrorist financing. Many agencies including CIA, Homeland Security, Justice, State, and Defense, possess certain resources that also help us fight terrorist financing, but Treasury should be the lead agency in the fight.

I think the President should frankly appoint a special envoy or a czar for terror finance. We really, I think, have got to the point where most of us understand we need one person who reports directly to the President totally focused on this issue. Foreign governments want to deal with one person, and they want to deal with one person only, and that person needs to have the President's ear.

In the meantime, resources and authority at the Treasury need to be greatly bulked up. For one, the Treasury, not the National Security Council, should chair the Policy Coordinating Council on Terror Finance. The new Office of Terrorism and Financial Intelligence should house the staff for the PCC, which would further enhance Treasury's stature as the lead agency.

Additionally, the Financial Crimes Enforcement Network should be more active in compliance. Since Treasury is the Department with Bank Secrecy Act and PATRIOT Act authority, it needs to have audit and compliance officers in-house. Other financial regulators like OCC and OTS are more concerned about safety and soundness. FINCIN should have a complete set of tools, and we here should ensure that you have those tools.

I would also like to see the administration relocate the Foreign Terrorist Asset Tracking Center from CIA to Treasury. CIA has enough on its plate and does not have the same expertise in this area as Treasury has.

Mr. Secretary, I understand that you probably do not want to comment publicly on what I have just outlined, and I am not asking you to do so. At some point, though, I would like to see someone from the administration come here and explain to us why Treasury does not currently have a broader mission on the fight against terrorist financing. From the perspective of a member of the committee and of the International Relations Committee as well, I am not pleased with the current structure. And I want you and your team to have greater authority and responsibility in this area.

Just yesterday, in the International Relations Committee, we heard testimony on Saudi-related terrorist activity. Greg Bair, who is a former CIA station chief in the Middle East, agreed with me that terror finance needs more attention and needs the attention along the lines that I have outlined here.

And, secondly, Mr. Chairman, I would like to submit for the record an opening statement from Peter King, who is our subcommittee chairman on domestic and international monetary policy as well, if I could, without objection.

The CHAIRMAN. Without objection.

[The following information can be found on page 43 in the appendix.]

The CHAIRMAN. The gentleman's has time expired. The gentlelady from New York, Ms. Maloney.

Ms. MALONEY. Thank you, Mr. Chairman.

And welcome, Secretary Snow. And congratulations on all your hard work. I would like to add to the opening statement of the distinguished ranking member, Mr. Frank, on being a good neighbor at home and abroad. And the escalating numbers of unemployment are tremendously troubling to my constituents. We have lost 3 million private sector jobs, a 2.2 net job loss when you include the public sector. And last month we only created 21,000 jobs. We would have to create 200,000 jobs a month for the next 10 months just to bring this country back to the place where we were when President Bush took office. Yet, at the same time the administration appears to be unsympathetic to the needs of the unemployed. The jobs are not there, yet they are not extending unemployment benefits.

I am also deeply concerned, as many of my colleagues on both sides of the aisle, about the rise in the deficit over the last 3 years, which is of historic proportions.

Since 2001, the administration's Office of Management and Budget forecast for publicly held debt over the 7-year period of 2001 to 2008 has increased 4.4 trillion to 5.6 trillion. That is 4.4 trillion more debt under the Bush administration. And currently, foreign investors hold 1.6 trillion of U.S. debt, a 27 percent increase over a year ago. I find that tremendously troubling to the future economy of our country. Should foreign investors lose confidence in our economy and reduce this investment, our constituents could face serious consequences, including a dangerously weak dollar and increased credit card and home mortgage interest rates.

And while the administration actually on the floor today claims its new budget will address the situation by cutting the deficit in

half, the Bush record, over the past 3 years is of rosy predictions, and but it is followed by a ballooning deficit and more job loss.

The budget put forth by the administration for fiscal year 2005, which does not include funding for Iraq, would seem to be more of the same.

And I am also interested in your comments on administration's support for heavily indebted poor countries. And I certainly applaud the efforts of Treasury and Secretary Baker in engaging France and Russia in their efforts for debt relief in Iraq. The work to resolve the Iraqi debt crisis has only begun, and I have heard from NGOs in the region that the pledges of partial debt cancellation are proving to rise and raise the value of outstanding debt of Iraq, which means that the country could be required to pay more after debt relief than they would prior to such agreements. And this troubles me in two fronts: Debt surface will come at the cost of health care, education, and basic needs of the Iraqi people. At the end of the day we do not want to see the U.S. contribution to Iraq sent off to other countries for debt service.

And, finally, I look forward to an update on the cooperation the Department is receiving on the international effort to cut off terror financing.

Again, I thank you for your hard work, and we appreciate your testimony today.

The CHAIRMAN. The gentlelady's time has expired. We now turn to the distinguished Treasury Secretary for another appearance before the committee. Mr. Secretary, we are honored to have you here. And I know the hearing is titled the State of the International Financial System, and obviously a lot on our plate in a lot of different areas. So we appreciate your participation today, and we are glad to have you back.

**STATEMENT OF HON. JOHN W. SNOW, SECRETARY,  
DEPARTMENT OF THE TREASURY**

Secretary SNOW. Mr. Chairman, thank you very much. Ranking Member Frank, distinguished members of the committee. It is always a pleasure to appear before you and continue the exchange of ideas that has been going on now for some considerable period of time.

On the issue of the state of the global economy, I think it is clear we are in a lot better condition today in the global economy than we were a year ago at this time. The U.S., the leading economy in the world, is in a much better position. It is on a good growth path. GDP rose in the last half of the year at 6.1 percent, the highest in 20 years. All the private forecasts indicate that the economy will grow between 4 and 5 percent this year. The highly regarded blue chip forecast came out earlier this week indicating a revised upward growth of 4.7 percent. And in Japan, we are seeing better results, for the first time in a number of years, we are seeing considerable growth there. In Europe, while the growth is less satisfactory, there are a number of efforts underway across the Euro zone, to take steps to improve the performance of those economies.

I appreciate, Mr. Chairman, your comment on our leadership in the G-7 on the agenda for growth.

I think there is a recognition now that we have a growth deficit in the world economy, and that growth deficit hurts the United States. We grow more slowly when Europe and Japan grow more slowly, and when the developing countries grow more slowly it has hurt job creation in the United States, it has hurt exports in the United States. As we grow, we help the rest of the world; and as the rest of the world grows, they help us. Growth is no accident. Growth occurs because of the adoption of good policies. And what we are seeing around the world is increased attention to adoption of good policies.

The IMF and the World Bank and the other multilateral development banks have an important role to play. In my submitted statement, I review in some detail progress which is being made there. Let me just mention a couple of things, because I know it is of great interest to you.

One, the IMF has narrowed its conditionality so that when funds are extended there is the expectation of real reform occurring, and sustainable growth the end product of the extension of the financings. At the IMF as well, this past year we have seen important movement forward on sovereign debt with the widespread adoption of this concept of the CACs, the ability to work out through collective action clauses the sovereign debt issues that may arise. It has been a very helpful note, and the United States has taken the lead in moving the world in that direction.

At the World Bank, we have seen a movement from loans to grants dealing with this issue of heavy indebtedness. It doesn't make any sense to continue to extend loans to countries that can never, never pay them back, and the World Bank has responded, I think, in a very positive way. And both institutions have focused more on real bottom-line results, on metrics, and on milestones. And I appreciate the support we have gotten from the committee in those efforts.

While progress has been made, we are not satisfied. Neither is the leadership of the World Bank or the IMF. We have extensive discussions with them. They recognize they need to get even better at focusing on real results, measurable results; that they need to use the private sector more effectively, and they recognize the need for better macroeconomic surveillance. They also recognize, and this is a point we continue to make, that they are dealing with U.S. taxpayer monies as well as taxpayer monies from other countries. And the U.S. taxpayers properly—properly, should demand and do demand real results.

I agree with Congressman Frank that we have a great stake in the world economy. We have a stake in the developing world. We have an obligation to try and advance better policies and sustainable growth. But we also have to do it in a way that respects U.S. taxpayers and assures that the U.S. taxpayers get real results from our support for those institutions.

This is a time of real opportunity. The United States, for the first time in 7 years, is chairing the G-7, G-8. The President of course will host the other world leaders at Sea Island. We also have the chairmanship of the G-7 finance ministers, I intend to use that well to build even greater support for these core ideas that we think

make the world a better place and make the IFFIs perform more effectively.

With that, Mr. Chairman, I thank you very much and look forward to your questions.

[The prepared statement of Hon. John W. Snow can be found on page 45 in the appendix.]

The CHAIRMAN. Thank you, Mr. Secretary. And, again, it is good to have you back.

Before I start the questioning, first of all, all members' opening statements will be made part of the record. Without objection.

While it pains me, Mr. Secretary, I have to announce the score of the basketball game last night, since we do have a couple of players here. First of all, the final score was 27 to 26 in favor of the Democrats. One of the lowest scoring games in the history of the Gallaudet Classic. The shooting percentage on both sides was quite extraordinarily low, Mr. Secretary. I know you are an old basketball player and would appreciate the fact that it was—our excuse was that nobody was really in shape. But at the end of the day, the winner was the Gallaudet University, the only school in the country for the deaf. And it was quite an exciting game. I want to congratulate particularly the gentleman from New York, Mr. Crowley, the gentleman from California, Mr. Baca, who were on the victorious team. The gentleman from Illinois had nothing to do with it. And Mr. Ose on our side was also a participant. But I thought in the interest of full disclosure, Mr. Secretary, I would announce that to the members.

Let me return now to the Group of Seven Agenda For Growth issue. And certainly I think all of us are encouraged by the innovations achieved within the G-7 just in this past year. And I want to focus, if I might, on my first question on one detail. Your written testimony this morning indicates that as part of the G-7 Agenda For Growth, the UK is proposing a collaborative initiative on regulatory reform across the EU. How does this initiative coordinate with the existing US/EU dialogue for financial regulators? And how could a mechanism such as that US/EU dialogue be used to promote growth for American financial services, markets, and firms?

Mr. Secretary, as an aside, I have had numerous discussions with parliamentarians in Great Britain as well as from the European parliament. Obviously, this is a huge potential growth opportunity particularly for financial institutions firms, and I wonder if you could elaborate on that?

Secretary SNOW. Thank you very much, Mr. Chairman. I will do my best.

This is an issue that the Treasury plays an important role in. The SEC probably plays the lead role, but we are very much party to the financial dialogue, the EU/US financial dialogue and the UK dialogue. The Sarbanes-Oxley legislation of course is a great impetus since it changed our securities laws in some fundamental ways and corporate governance rules, at the same time that it has affected the accounting industry and represents the most sweeping changes in our Federal securities laws since the new deal. And Europe recognizes the need for some harmonization with us so that their companies can have access to our markets and our companies can have access to their markets.

The issue that is directly before us of course is the EU requirement for an equivalent supervisor for financial institutions, equivalent to what they have on the other side of the Atlantic. I think we accept the validity of that point of view. There needs to be an equivalency. It doesn't have to be precisely the same, it has to be substantively comparable.

And in talking with the EU ministers, I am encouraged, and an awful lot of progress is being made on that subject. The UK of course is not a member of the EU, so they have their own financial services administration, which is their financial insurance and banking and regulator that oversees these matters. And the FSA is making good progress with the EU as well in harmonizing between themselves.

There is a rich dialogue on this subject. I think we understand each other, and I think we are making good progress in accommodating each other.

The CHAIRMAN. Thank you, Mr. Secretary. Let me ask you about external performance audits. As you know, the Appropriations Act of 2004 would call for performance, external performance audits regarding international financial institutions, and I note you mentioned the Sarbanes-Oxley Act. And in that vein, why is that important? And are we making progress in terms of the effectiveness of those performance audits?

Secretary SNOW. I think the legislation is tremendously important. Everybody needs to be accountable. And what the legislation does by requiring outside audits is to assure accountability. And we have had extensive conversations with the World Bank. They understand that we cannot support the enhanced payments for performance, the performance payments unless there is an audit that satisfies us that the progress on the various metrics is being made. I think it is a simple issue of accountability, and the legislation was right to insist on it and we are going to insist on it as well.

The CHAIRMAN. Thank you. And, finally, on IMF reform, I just want to talk—and I appreciate your testimony on Argentina IMF issues. But on lending limits in particular, the IMF of course used to restrict available resources to a multiple of each country's IMF quota. Your testimony would indicate that progress is being made on narrowing and specifying the circumstances on which countries could access large-scale IMF lending. This obviously could be a step in the right direction if crafted and implemented properly. Could you provide more details on the current thinking on this lending limits issue?

Secretary SNOW. Well, it is an extremely important issue, and it goes right to the center, I think, of making these international financial institutions and really the international financial system work appropriately and accountably. There are conditions where clearly the IMF needs to serve as a lender of last resort, but it can't be every time a country finds itself in some difficulty. We have been working with the IMF to limit the cases of exceptionality, that is, the cases where their debt or credit will be extended to those that really justify a lender of last resort access. And that is the core issue.

The IMF has moved a long way in that direction to narrow this exceptionality, and I think, Mr. Chairman, we have seen good

progress. We want to continue to see that concept though honed even further so that the world financial system, the sovereigns of the world, the developing countries who would seek access would have a clear sense, would have clarity and transparency on when access would be made available.

The CHAIRMAN. Thank you. My time has expired. The gentleman from Massachusetts.

Mr. FRANK. Mr. Secretary, I think we may be about to set the record for quick compliance with a request from the cabinet officer. The last part of your testimony you asked us to take action on the Senate version of the NADbank bill. Thanks to the gentleman from Texas, Mr. Hinojosa, we debated that yesterday, and we are going to vote it through in about an hour.

Secretary SNOW. Wonderful.

Mr. FRANK. So you are doing pretty good.

On another issue where I am much less in agreement, peripheral but international. The director of the Office of Foreign Assets Control has just made it clear that editing with the enemy will now be considered a serious threat to American national security. That is, you have interpreted in your department law involving trading with the enemy, et cetera, so that scholarly journals or others who receive manuscripts from Iran cannot edit them, must print them verbatim. Our colleague, Mr. Berman, who offered an amendment that said let us not use this as a way to do censorship intellectually, has called the interpretation ludicrous and absurd.

I disagree with Mr. Berman. I think he is being much too kind. I think it is just nuts. I mean, it just is unseemly for the United States of America to be afraid of anybody's ideas. And the notion that we would try to restrict people from editing and publishing really troubles me. Yes, we should be very tough about all kinds of contraband. We don't want them to get economic benefit. But I really argue, I have written, along with Mr. Berman—I really urge you to reconsider. Let us not look like America is worried that if some Iranian sends some article and it is edited or translated that that somehow is a threat to the strongest Nation in the history of the world.

Secretary SNOW. Congressman, it won't shock you to know that this isn't the first time that something has come out of Treasury that I was not aware of. And it probably won't be the last. But I will look into that.

Mr. FRANK. Thank you.

Now, back on the main theme, which is my main theme. How do we build more support within the United States for the international approaches in part by dealing with the problems that these things happen? I think what we need to understand, and you do, Mr. Greenspan does. Obviously things happen that are in the long run, even the intermediate run, a benefit of the economy, but those benefits and the burdens are not shared equally. And I don't think we do a very good job at this point of alleviating the burdens of those who have to bear them so the rest of us can have the benefit. And this is a particularly good example now with regard to trade adjustment assistance.

And I am going to ask, Mr. Chairman, to put in the record an article from Paul Blustein of the Washington Post on March 13th.

The CHAIRMAN. Without objection.

[The following information can be found on page 56 in the appendix.]

Mr. FRANK. About trade adjustment assistance. Because as the article points out: For months, the Bush administration has been fighting a lawsuit brought by a group of computer programmers whose jobs were outsourced abroad, arguing that they don't qualify for government benefits aimed at people coping with layoffs caused by imports. And apparently it is the legal interpretation that, because they were providing this service and not a good, they are not covered. I am not going to argue the law here, but why was not the administration instantly saying, good point, we didn't think about that, look—you know, 10 years ago when we were telling people we were going to retrain them, we are retraining for some of the jobs now being outsourced.

Leave aside the question about whether outsourcing is good or not. We could debate all that. One of the things that I hope would not be debatable is that government clearly has the responsibility for easing the pain of transitions. And we don't do that very well.

At a hearing, Senator Baucus, who was very involved in this asked, I guess, Mr. Zoellick what the administration's position would be on changing the law, and he hinted, according to the paper, that they might be willing to change the law. And the White House spokeswoman Claire Buchan said that is something that is being looked at. And Mr. Zoellick then said that is something we should examine very closely.

Frankly, one needs to look at the cost aspects of this as well. Worrying about how much it is going to cost to provide this assistance to people who are losing their jobs to outsourcing is a very good way to build more and more opposition to outsourcing. And those who think that this is an inevitable part of the transitional global economy, I mean, what is the matter with these people? How do you go to them and say, okay, this is very good? I mean, Mr. Greenspan talks about creative destruction. Joseph Schumpeter was a wonderful economist, but he is less persuasive to people who have lost their jobs than Mr. Greenspan apparently realizes.

So let me ask you. Could you just tell us now that the administration will support and help us move quickly legislation to cover these people in trade adjustment assistance?

Secretary SNOW. Congressman, I am not an expert on that trade adjustment assistance legislation, but the issue is being reviewed. And, as I understand it, while service workers are not included under the TAA, there are other programs which are applicable that are under the jurisdiction of the Department of Labor. And Secretary Chao is leading an effort to make sure that those programs, that the availability of those programs is widely known and communicated to people who might be able to draw on them.

I agree with your premise. We live in a period of enormous change, accelerated change, and we owe people opportunities to retrain, to go through the transition, to work their way through the transition, to minimize the cost personally.

Mr. FRANK. The Labor Department—yes, there are some things, there are differences in the programs. Why not make these people eligible? Let me put it this way: If when we were drafting this law

originally people could foresee the outsourcing, of course they would have been included. It is counterproductive not to do it. And let me just elicit what I think is a repeat of administration policy even more directly relevant here. Am I correct that the administration does support the 6-month extension of unemployment benefits?

Secretary SNOW. The issue has come up I think three times since the administration took office, and every time that the proposals have come—

Mr. FRANK. Well, currently. The problem, of course, is that it comes up in the Senate, but it doesn't come up in the House because the leadership won't let it. But does the administration favor another extension of unemployment?

Secretary SNOW. Well, I think the administration's view is that if the Congress acts on it, that the President would sign the legislation.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from California, Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman.

Mr. Secretary, I am concerned that many of our partners—and I take Saudi Arabia as an example—our partners are not doing enough to fight terror finance. And one of the specific examples that I wanted to cite was the Al-Haramain Islamic Foundation, one of the charities that is headquartered in Saudi Arabia.

We have had two separate actions where we have named a number of their affiliated branches across the world as supporters of al Qaeda. And I would like to know if Saudi Arabia has held anyone within their own borders accountable for this charity's terrorist activities? I understand that the branches that we have targeted are outside the country, but I think many of us find it hard to believe that people at headquarters in Saudi Arabia were completely oblivious to the activities of their satellite offices outside of the country. And I think, for us, the reflection here is that this is a charity who is financing people who are actively trying to kill us. And I am not aware of any arrests in Saudi Arabia related to Al-Haramain.

So, I wanted to ask about your concern about lack of action from the Saudi government and how you feel about that. And I know the Saudis have put in place new laws, but what about asking them to look at the past and look at this particular institution and look at some accountability, having them take action with respect to the core group that have set up that charity?

Secretary SNOW. Congressman Royce, the issue of the Saudi's support in the financial war on terrorism is one which we and Treasury have engaged at the very highest levels of the Saudi government, and have done so on a continuous basis. I think some real progress, some real progress has been made, and we need to recognize that. Al-Haramain is the counterpart to the United Way in the United States. And the Saudis have taken extraordinary steps, given their culture, to go after the abuse of their leading charity as a vehicle for transmission of terrorist monies. You think back a year and a half ago, or a year ago to today, and to think that they are removing contributions baskets from the mosques to limit the use of cash going into these institutions, and that they have designated some large number. In fact, it was a joint designation with us and them.

I think Saudi Arabia is a genuine ally in the financial war on terror. They recognize they need to do more. There are some things I probably shouldn't go into now but would be pleased to go into with you in a closed setting.

Mr. ROYCE. Thank you. Another question I wanted to ask you, Mr. Secretary. I think we are right to focus on how terrorists get access to funding. But it seems to me that all the focus is on the end user, on the terrorist himself, or the focus ends up being on the wider terrorist cell. But also, I think if you put the focus on the banker helping the terrorist, that that would then bring into the equation someone who could be I think deterred more easily. Because all of these organizations need to get access to that financing. But maybe, maybe it is the banker who isn't quite as committed, who isn't quite as anxious to be a martyr, who has something to lose. And so if you could deter that element in the equation, you could stop the flow of funds. And I wanted your thoughts on that concept, if I could.

Secretary SNOW. Well, I agree with your basic premise, that we need to make the banking system an ally in the war on financial terrorism. And, of course, through the PATRIOT Act in the United States we have made enormous progress in that arena. And through FDIF, which has agreed on some 48 or so special recommendations on terrorist financing, we have engaged the world community in this as well and have established recognized international standards wherein, I think, it is well over 100 countries, 160, 170 countries now they are freezing orders, in effect, to block terrorist assets, and a number of individuals have been designated here and abroad.

The G-7, every meeting we, finance ministers with the central bankers meet, we have a special session on the progress in engaging the financial community and financial institutions in the war on terror. Some slip out of the net, I will grant you, but I do think we have made some pretty good progress.

Mr. ROYCE. Our difficulty in Europe is, with an attorney, individuals can still open that account and never have their name on the account, put millions in it, and transfer it to a terrorist cell, and there is no way with that banking system to have accountability. And we really need to keep pressing on that front.

Secretary SNOW. I agree with you.

The CHAIRMAN. The gentleman's time has expired.

The gentlelady from New York.

Ms. MALONEY. Thank you.

Mr. Secretary, the Department is playing several roles in Iraq in helping the economy get going. And I am particularly interested in your views on debt relief. First of all, what are the numbers you are working off of? Are they Treasury's numbers, or what numbers are you working off of on debt?

Secretary SNOW. We are working off some internal numbers that we are finalizing and numbers that are coming through the IMF. The IMF has been asked to take a lead role here in working through those numbers.

Of course, for a number of countries, creditor countries, the Paris club will also be working through their assessment of what those numbers are. So it is a multi-part effort.

Ms. MALONEY. To the best of your knowledge, how much debt does Iraq owe the United States? It is my understanding it is very low, only one half of one percent of the total debt. And how much does it owe the world in total? Do you have that in a general sense?

Secretary SNOW. In a general sense, I do. For the United States, the principle debt is, as you say, it is relatively small, \$2 billion, something in that range with about an equal amount of interest arrearage, another \$2 billion roughly of interest arrearage. So that our total debt is on the order of \$4 billion. The number that—and this is not reparations, this is direct debt. The number for—in total, the aggregate number is something like 100, 120 billion is my recollection of it.

Ms. MALONEY. Could you give us a breakdown of that for the committee?

Secretary SNOW. I would be happy to supply it to you.

Ms. MALONEY. Thank you. And of this number, how much relief was former Secretary Baker able to secure?

Secretary SNOW. Well, what Secretary Baker has done and I commend—

Ms. MALONEY. And Treasury?

Secretary SNOW. And Treasury. But Secretary Baker now is taking on a special role as the emissary of the President to meet with heads of state to get a broad commitment from them. And he has made a great deal of progress. And the heads of many number of countries—I talked to him just last week, and he is preparing a number of mission—have agreed, and these are the leading countries of the world, to substantial debt relief. And that is going to be necessary if Iraq is going to return to the world community as a viable country, because the debt load is simply too crushing and they couldn't have a sustainable economy unless there is substantial debt relief.

Ms. MALONEY. And as you know, along with our former Chair of this committee, Congressman Leach and I have put in a bill calling for debt relief, a Sense of Congress, and also using the leverage of the United States in the IMF and World Bank, even though that loan is very low to those two bodies. And that loan was not odious from those two bodies to really move this forward and get total debt relief for this country, primarily because it was odious debt. We know that it was spent to build 74 different palaces and for weapons and for odious causes, and certainly not for the people of Iraq who did not receive any of it. And it seems to me wrong to saddle that country, and particularly the American taxpayers that are our monies that we are giving to Iraq could be redirected to other countries.

This is a conversation that we have been having. And I just want to press that I think it is the way to go. It is something that we could do and something that, in my opinion—Hitler didn't—we didn't repay Hitler's debts. A lot of countries we don't repay the debts when it is odious debt. When it is a reasonable debt for a reasonable government, I can see that. But for this reason, it is totally off the mark.

But on Iraq, I have been there twice on various missions and I am very concerned about their future. It is going to take a commitment from the world. It is very tenuous. I have read in the paper

various proposals that American banks and others have put forward to help finance the reconstruction of Iraq. I believe the American taxpayers with the crushing burden that we are having economically would appreciate any help we could get in that direction. And could you comment? I just read about them in the papers where they have been willing to finance reconstruction costs and put money into Iraq based on future revenues from oil. Where does that stand? Are you supporting any of those efforts? Would it help Iraq and the American taxpayers?

Secretary SNOW. We are supporting the efforts to bring international banks into Iraq, absolutely, and was pleased that the Central Bank governor, Governor Shabibi, has announced that three international banks have now been licensed to come in as depository and lending institutions in Iraq. This was a major step forward.

Of course, J.P.Morgan/Chase is in there today playing an important role, and the Central Bank law is very forward looking in terms of making it possible for foreign banks to come in and help finance the growth of the country. They really need a financial sector. They do not today have a real financial sector. The banks that were there were not really functioning banks in the sense we think of banks. They were more appendages of the Saddam government used to handle financial affairs of the regime rather than lending institutions to bring capital to users of capital for growth.

The CHAIRMAN. The gentlewoman's time has expired.

The gentlewoman from New York.

The Chair would announce there are four votes on the floor of the House. The chairman will recognize the gentlewoman from New York, and then we will take a break for those votes, Mr. Secretary, and then return.

Gentlewoman from New York.

Mrs. KELLY. Mr. Secretary, I want to associate myself with the comments of Mr. Royce. He asked you about Al-Haramain. Quite frankly, in my mind, it is no different than Hamas. These are charities that are in fact doing two things, promoting terrorism, as well as doing some charitable work. It is very hard to get your arms around something like that. But when you appeared before my committee, you said you were the lead agency for tracing the money on terrorism, and you said that you had set up, through the PATRIOT Act, a desk that essentially is working with not only Treasury but also Customs and CIA and FBI.

I want to know how Customs, CIA and FBI are working with you. Because over the course of the last 4 months, everything I have read indicates we are not getting a whole lot of cooperation from the FBI. Are they giving you cooperation or just taking information and then you never know what happens to it?

Secretary SNOW. You are absolutely right, we have a joint task force in Saudi Arabia, in Riyadh, working with the counterpart agencies of the Saudi government, with the full support of the Crown Prince and the finance minister and the Central Bank governor. This is a subject I raised with them when I was over there several months back. The Saudis, I will say, are very cooperative in this.

Mrs. KELLY. Excuse me, sir, but that was not the basis of my question. My base question is—I am glad the Saudis are finally beginning to help out in trying to trace terrorism money. We cannot stop terrorism until we stop the money. And my concern is whether or not you are getting information on your desk. Because you told me the buck stopped on your desk in tracing terrorist money. If that is the case, I want to know if you are getting cooperation from the FBI and the CIA even right here in this country. Are they taking or are they giving?

Secretary SNOW. We are getting good cooperation, let me make that clear. At the same time, we think that more focus on financial intelligence, intelligence about flows, is very much needed, a higher priority for that. And that is why I was so pleased when the Congress established the new Assistant Secretary for Intelligence at the Treasury Department. That is really a very important development in the war, and I know your role. I think it is critically important that that has happened. This will give priority to our efforts. It will make sure that financial intelligence is getting the attention it needs. We hope to announce that Assistant Secretary very soon, in addition to an Under Secretary, which was contemplated in the legislation, to oversee that whole initiative and become the focal point, the focal point for the financial war on terrorism. The one person in the United States Government, full-time, directly responsible every day, waking up and going to bed thinking about terrorist finance.

Mrs. KELLY. Well, thank you. I also want to ask you quickly about TRIA. Right after 9-11, we put a Federal reinsurance backstop for terrorist acts here in the United States. That is going to expire. We put a sunset in there. I would like to know whether or not you feel that TRIA has contributed to the stability that has been in our economy with regard to a number of different factors of our economy over the last 2 years?

And my second question is, since there is no cost involved in TRIA, unless there is a terrorist event, wouldn't it be sensible for us to extend TRIA out for a few more years until we are sure that we have done something to stop this war on terror?

Secretary SNOW. Mrs. Kelly, I agree with you. I think TRIA was very important. As a private sector citizen, member of the business community, I spoke strongly in favor of it. I think it has made a real contribution. We needed a backstop. The legislation, as you know so well, has a time frame to it. One idea behind the legislation was to see if the private sector could come in and fill in with the backstop maybe playing a smaller role over time.

We have a decision to make here, I think it is September of this year, about whether the TRIA coverage will be extended for another year. And at the end of that year, we have the whole question of whether TRIA should be extended beyond that. That is a matter that is now under active review in the Department. We are getting comments from any number of private sector people, insurance companies, the building industry, construction industry, and so on.

While I cannot prejudge our decision, I can tell you, one, that I strongly supported TRIA, it played an important role, and this issue of its extension will be receiving my full attention.

Mrs. KELLY. I hope it will, and I hope we are going to get a positive result from that attention, sir. Thank you very much. My time is up.

The CHAIRMAN. The gentlewoman's time has expired.

The committee will stand in recess until 11:40 a.m.

[recess.]

The CHAIRMAN. The committee will reconvene, and we are pleased to recognize the gentlewoman from California, Ms. Waters, for 5 minutes.

Ms. WATERS. Thank you, very much. Mr. Secretary, I thank you for coming, and I want to try to get in a number of questions in a short period of time, and some of them just require a yes or no answer, so I will know what to talk with you about later, beyond this committee.

As I understand it, you defend basically the administration's position on outsourcing and you do not think that that is the cause of the loss of jobs in this country.

Secretary SNOW. Well, no, I certainly would acknowledge that outsourcing has had some effect on U.S. jobs.

Ms. WATERS. Do you have any creative proposals to deal with this outsourcing problem? Would you, in any way, penalize corporations that we give contracts to, that we give loan guaranties to who are basically using the taxpayers' money? Do you think it is severe enough we should do something about penalizing companies that are outsourcing jobs?

Secretary SNOW. I think we have to be very careful there, Ms. Waters, because by penalizing U.S. companies that engage in trade in any way, I think we undermine our ability to keep American enterprises dynamic and competitive.

Ms. WATERS. Do you have any creative ideas, any thoughts about what we can do about it other than what I may be proposing, penalizing companies who get government contracts? Do you have any new ideas that we could talk about later?

Secretary SNOW. Yes, well, I'd be happy to talk about it. As you think about your legislation, though, I'd ask you to think about the fact that 70 percent of all the companies that are engaged in exports in the United States have fewer than, I think it is 20 employees. So an awful lot of small businesses are engaged in exports. That is a surprising statistic. But we don't want to do anything to hurt small business because they are really the engine of job creation.

Ms. WATERS. I do want to talk more about this with you, not today.

As part of your statement, you talk about creating industrial parks and encouraging business growth in Afghanistan. Recent reports show that 50 percent of African American males in New York are unemployed, and I understand that a very devastating report is going to come out about the same in California. Do you have any creative proposals to deal with this kind of business development in America's urban or rural areas; such as that which you are proposing in Afghanistan?

Secretary SNOW. Yes, Ms. Waters. There are a number of governmental programs, not administered by Treasury, but through other agencies of the Federal Government that address those issues.

Ms. WATERS. But there is nothing in Treasury, such as what you are doing in Afghanistan; is that correct?

Secretary SNOW. No, Treasury does not administer any program directly like that, with the possible exception of something called the New Market Tax Credit program.

Ms. WATERS. Yeah, I know about those. Okay. You know, some of us on this committee have been involved with trying to recover stolen assets by dictators and leaders in other countries. We have had several hearings. We talked about Saddam.

I have been trying to get money back for Nigeria. The Abacha regime, as you know, stole a lot of money. And we have been able to talk about recapturing some of that in other countries, in Switzerland, Britain, Luxembourg, and on and on, but nothing from Citibank in the United States.

Have you been involved in this issue at all?

Secretary SNOW. I regret to say that I haven't.

Ms. WATERS. I want to talk with you about that at a later date, but will you please take a look at that and see if we still have some kind of efforts to do that?

I also want to talk about debt cancellation for the New Millennium Act, where I am asking for 100 percent cancellation of the debt of the world's most impoverished countries. Do you support that?

Secretary SNOW. We certainly support the HIPC initiative very, very, very strongly, yes.

Ms. WATERS. And, finally, let me ask you a very tough one. Last night, I spent part of my evening reading the accounts of the assistance that we gave to members of the Royal Family of the Saudis and getting them out of this country after 9-11, and it is amazing and absolutely extraordinary what we did.

Do you know of any involvement that we have had in also protecting their assets? Did we, in addition to helping to escort them out of the country after 9-11, arranging the airplanes and getting Royal Family and their associates out, are we doing the same thing or did we do the same thing for protecting their financial assets in this country?

Secretary SNOW. Congresswoman, I am not privy to any information on that subject. I am not aware of what actions we may have taken or may not have taken. I'm just not aware of it.

The CHAIRMAN. The gentlewoman's time has expired.

Ms. WATERS. Thank you very much.

The CHAIRMAN. The gentleman from Texas, Mr. Paul.

Dr. PAUL. Thank you, Mr. Chairman. Welcome, Mr. Secretary. I have a question dealing with the free market economy, and basically the question is where do you believe proponents of free market capitalism go wrong? And let me develop that question for a minute, because I do not think we follow free-market economics.

I do not think we're very close to free markets and a sound economy based on free and open trade. We have an artificial system that you have to deal with on a daily basis, and from a free market standpoint, it is mostly patch-up work trying to correct problems. And, of course, the free market proponents, especially Mises always said that when you intervene in the marketplace, domestically or internationally, you usually create more problems than you solve.

You usually create two new problems for each one. But the free market economists, from Mises on down to Rothbart and Hayek, all of them I think were absolutely accurate in their projections and predictions. Because in the 1920s, they talked about the bubbles in the 1920s and what would happen in the 1930s. They were correct in the 1960s and predicted that Brenton Woods would break down. Even Henry Hazlitt wrote from this viewpoint. When the IMF was established, he said Brenton Woods can't last, and he was absolutely right in 1945, and in 1971 it collapsed. These same group of economists said in the 1990s that the same thing would happen, that we cannot sustain the bubble in the stock market, and the crash inevitably comes for a very precise reason dealing with monetary policy.

Now, I know when I ask the chairman of the Federal Reserve about monetary and dollar policy, he defers to Treasury. Of course, Treasury can, I think, legitimately defer to the Fed, because they have so much to say and do with the dollar. They are the ones that create the money out of thin air. So I understand that.

But, still, where do they go wrong? And why is it that we have gone so far away from accepting the notion that true capital should come from savings rather than out of thin air? Why shouldn't we encourage savings instead of manipulating the economy with artificially low interest rates? Why do we do economic planning through all this manipulation in the monetary system and then we resort to this patchwork effort internationally, which costs a lot of money? Not a little bit, billions of dollars.

Now, these same economists would say today that the international financial system is very, very shaky, probably not much better off than Long-Term Capital Management. And I have to pay attention to them when they talk about this. But the system that we have literally encourages the Congress to be extravagant spenders. They never have to worry about raising taxes. Debt can always be taken care of. And that is why our national debt is going up \$700 billion a year.

So if we don't get back to the basics of why we get away with what we do, I don't see how you can ever patch the system together. And this idea that we can just give IMF money, World Bank money, development bank money, come up with Millennium Challenge Account money, I mean, this is not a couple of dollars, and this all comes out of our domestic economy.

So I am a strong advocate of free markets where interest rates are set by the marketplace, that budgets have to be balanced, because we don't have the authority, moral authority to print money out of thin air, and it really doesn't make good economic sense in the long term.

So where, in your view, do we go wrong in thinking along these lines?

Secretary SNOW. Well, one place we go wrong, I think, Congressman, is not to acknowledge explicitly the implicit contingent liabilities that exist in a number of U.S. programs, good programs, important programs, Social Security, Medicare, Medicaid, veterans payments, and the Postal Service, a variety of these very important programs that serve very important and legitimate purposes where the potential liability to the United States Government, the contin-

gent liability, the taxpayer obligation, or as you say the other side of that, a borrowing obligation, is very, very large.

I testified yesterday before the Committee on Ways and Means on the Social Security System and on the Medicare and Medicaid systems and had to bear the very unhappy news that Social Security is not sustainable and that the Medicare system, unless put on a different course, is not sustainable either. The reality is the contingent liabilities that are implicit in those programs are a huge portion of the GDP in the United States.

So I would say one thing—and I admire all those economists you cited, by the way—but the one thing I would say is to try to make explicit when Congress acts and when the administration acts, the real cost of the things we are doing.

Dr. PAUL. Thank you.

Secretary SNOW. Thank you.

The CHAIRMAN. The gentleman's time has expired. The gentleman from Vermont, Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman, and thank you Secretary Snow, for being with us today.

Three quick questions. You may recall that I passed an amendment which would prohibit the government from working with IBM to overturn a court decision regarding cash balance pensions. That was incorporated into law. You may remember the whole hoopla about that IBM lobbyist using the Treasury Secretary's stationery.

Secretary SNOW. Yes.

Mr. SANDERS. I would very much appreciate, and I thank you for initiating an inspector general's investigation on that, I would very much appreciate your giving my office a nonredacted copy of the IG report. We would like to see the full report. Is that something we could get? Because I think you will agree with me the allegations are very serious about that.

Secretary SNOW. I'm prepared to be as cooperative as we can be, Mr. Sanders, on that, and you're right I did ask the IG to look into it once it was brought to my attention, and you helped bring it to my attention. As I understand the IG statutes, though, the IG, not the Treasury Secretary, is in control of that process; that I cannot and should not dictate to the IG with respect to the IG process.

Mr. SANDERS. Well—

Secretary SNOW. I am advised that is the law.

Mr. SANDERS. All right.

Let me go to another issue, and that is the outsourcing situation, and ask for your cooperation. As I am sure you know, this country has a record-breaking \$500 billion trade deficit. We have lost 2.8 million good paying manufacturing jobs in the last 3 years. We are on the verge of perhaps hemorrhaging millions of very good paying white collar information technology jobs. The new jobs being created are paying substantially less, 29 percent less nationally, than the jobs that we are losing. We have companies like General Electric that basically boast when they tell us that they are moving to China.

Ms. Waters raised this issue, legislation that I have offered, which now has 60 cosponsors, which says that the Federal Government should not be providing billions of dollars in corporate welfare for those companies that are heading to China.

Now, without getting into a great deal, I think one thing we can do is would you work with some of us in putting together a meeting with corporate America who are taking our jobs abroad and having them come to Capitol Hill telling us how they are going to create decent paying jobs in this country? Will you work with us in arranging that meeting?

Secretary SNOW. I would be happy to take part in that dialogue and helpful in establishing it.

Mr. SANDERS. The American people, I think, do not want to give billions of federal dollars to companies who advertise the fact that they are heading to China.

Last question. As you know, gas prices in this country are soaring. Great concern to consumers, to businesses, to farmers, and so forth. You and the administration are great exponents of unfettered free trade. You are; I am not. What I want to know is why the administration has not gone to the WTO to bring charges against OPEC, which is limiting supplies of oil coming into the United States?

OPEC, by definition, their reason for existence is they are a cartel designed to limit production. Why aren't we going before the WTO pressing the charge that OPEC is in violation of free trade agreements?

Secretary SNOW. Congressman, the current price outlook is regrettable. It serves as a tax on America, on our consumers and it slows our economic growth. But I do not think the actions by OPEC, as I understand the WTO rules, are subject to the WTO rules, because they do not involve a trade violation in the sense of raising—

Mr. SANDERS. I would respectfully disagree with you. And if OPEC is not, by definition, restraining production and acting in total violation of what free trade is supposed to be about, I would be very surprised. And I would urge you and the administration to tell our friends at OPEC not to strangle the American economy and our consumers by forcing prices up artificially. Are we going to hear some statements out of the administration on that?

Secretary SNOW. Well, I think you have heard the Energy Secretary very forcefully talk about this whole subject. One reason that we are experiencing the rise in prices is that we don't have enough domestic capacity.

Mr. SANDERS. Well, that is your interpretation. I think the evidence would suggest that OPEC has limited the supply of oil coming into this country. Do you deny that?

The CHAIRMAN. The gentleman's time has expired.

Secretary SNOW. I would say only that if we had larger supplies of domestic capacity, we would be less dependent on uncertain foreign supplies.

The CHAIRMAN. The gentleman from Alabama.

Mr. BACHUS. I thank the chairman.

Secretary SNOW, we have heard a lot about outsourcing here this morning, but every definitive study on this issue shows that the balance of jobs that we are importing from abroad greatly exceed the jobs that we are exporting abroad. One recent study says that we probably get three times as much benefit from insourcing as we do from outsourcing.

I am going to submit some of those for the record. I do not know why people are blind to this. In fact, in my district, three of our largest employers, if we didn't have a global economy, they wouldn't exist today. They are the highest paying new jobs in the district, and I think if you went around to other districts, you would find that.

My question is similar to that. We hear all about outsourcing but nothing about the benefit that we get, the insourcing, and the high-paying jobs. Also, in your written statements you talk about the fact we have got the strongest economy since 1984. We have got low unemployment, which is going lower.

In fact, this Congress curtailed, from 1992 to 1994, they curtailed unemployment benefits because they said we had such strong unemployment. It was higher than it is today. And the same people today are saying that we have high unemployment. In fact, it is lower today than it was in 7 out of 8 years under President Clinton.

But I guess my question to you, home starts are at a record high, inflation is at a record low, interest rates are low, we have a strong economy, so why is it there is a disconnect between perception and reality?

Secretary SNOW. Congressman, you are absolutely right. The American economy is performing very well right now, high growth rates, low inflation, high productivity, the unemployment rate lower than the average of the 1970s, the 1980s or the 1990s. I think the issue is the apparent, and I say apparent for a reason, the apparent slower than expected pickup in jobs, and that is getting an awful lot of attention. And the talk of outsourcing is also getting a lot of attention, and I think it is creating a negative sort of miasma that colors people's view of what is really a very strong and very, very well-performing economy.

I am confident we will see those jobs come back. We will see them come back in the months ahead at a very good clip. What we didn't foresee, what we didn't foresee was the extraordinary high productivity. We have had the highest 3-year productivity, maybe of all times, but I have checked it back like 30 years, so the highest in 30 years. Now, that high productivity is good for the American economy overall. It makes our firms more competitive, it means higher returns to the businesses, more cash flow, and that is going to lead to good things, higher wages, but it probably slows up a little bit the job creation process.

We are still working off some of the excesses of the 1990s, the excess capacity created in those heady days of the late 1990s.

I would also point out, Congressman, this puzzle as between the two primary indices of the job market, both from the BLS, one called the payroll survey, which shows less growth, and the household, which shows lots of growth.

Mr. BACHUS. In fact, the household shows that we have created millions of jobs.

Secretary SNOW. 2.4 million.

Mr. BACHUS. How many?

Secretary SNOW. 2.4.

Mr. BACHUS. Nobody talks about that, but that is just as valid a study, and a lot of people think it is a more accurate indication of jobs. It is a mystery to me.

Let me ask, in closing, you have been to Afghanistan, I know that you have worked with the new government in Iraq. Are they making economic headways? I know they have established a new currency, a new banking law in Afghanistan.

Secretary SNOW. In both countries, and America ought to be proud of its role in both countries, in both countries we are seeing enormous progress. There can't be any doubt about the fact that Afghanistan is on a much better path now than it was under the Taliban, and Iraq is on a much better path than it was under Saddam Hussein. Not just the economy. The economies are clearly on a better path, but the rights and the dignity of the citizens, the prospects for better lives in the years ahead.

The CHAIRMAN. The gentleman's time has expired.

The gentleman North Carolina, Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman, and thank you, Secretary Snow, for being here. I'm just going to try to deal with one issue in the minutes that I have available, and that is to try to get an articulation of the administration's position on what trade and free trade is.

Reading on page 3 of the prepared statement that you gave the committee, you say it is through free trade that all nations can benefit from each other's prosperity. Free trade means new markets for exporters. Further down you say, as I have made clear before, it is our strong view that the international trading system works best with free trade, free flow of capital, and flexible market-based exchange rates.

Some of us who believe that it is a progressive position to support globalized trade, because we know that in the long run it will uplift the standards of living around the world, which we think is a desirable objective, have not been able to vote for any of the trade agreements, I personally have not, because in the negotiation of those agreements we also recognized that a number of these countries in other parts of the world have a system in place where they allow child labor, don't have labor standards, don't have environmental standards in place.

All of the things that our U.S. companies have to comply with, these places do not comply with.

I guess the question that I am trying to get a handle on is what is this administration's official definition of free trade? Does it, for example, include negotiation in trade agreements about labor standards? Does it include negotiations about environmental standards; the kinds of things that we know if they are not negotiated there may be free trade but not necessarily fair trade?

There has been kind of a transition in people's articulation of this. I was somewhat surprised at how aggressively your statement talked only about free trade rather than even finessing the fair trade issue. Can you give me this administration's articulation of the things similar to the kinds of things that I have expressed that are or are not included in the definition of "free trade" as you see it?

Secretary SNOW. The overall concept of free trade essentially is removal of barriers, and they can be both tariff barriers and non-tariff barriers, to commerce, to international commerce. It is opening of markets.

And as you say, we see that, and I think you said you see broad agreement with the proposition, that that is the key to uplifting the rest of the world as well as the United States.

Mr. WATT. Well, I do not think I necessarily agreed that that is the key, unless the nations are also doing something to affect the other standards of living that go with that.

Secretary SNOW. But when we, through the WTO, the WTO agreements, take China, for instance—

Mr. WATT. I'm trying to get an articulation of what is included in free trade. I don't want to take China, for instance. I guess what I'm trying to do is get an articulation of this administration's position on whether the things that I have talked about are or are not included as part of free trade? Is it free trade and fair trade or is it just free trade?

Secretary SNOW. Well, certainly it is compliance with the rules of trade. Every freetrade agreement, every time we open up markets through agreements, there is a complex set of underlying and detailed specifications, and we want the countries to live up to their obligations.

I mentioned China because we are pressing China to live up to its WTO obligations and to accelerate them. And if we could get the agreements with Morocco and Australia and Kfsg and the African, Asian, Latin American countries that we are pursuing, the world would be a better place because those agreements would encompass a focus on a lot of things that we would then have the ability to seek to enforce.

So I think we can make the world a better place through trade in a lot of ways.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Alabama is recognized for 2 minutes.

Mr. BACHUS. Thank you, Chairman Oxley.

Secretary SNOW. I'm concerned with the direction that the EU's financial services action plan has taken. Let me just be brief in how I am concerned.

I am concerned that it is penalizing our London markets, some of the current market practices in the city of London, the way that U.S. companies and our affiliates in London operate; that actually the EU seems to be tending towards more of what I would call a less developing, less competitive over-regulated approach. And I am going to submit to you in writing some concerns I have and just urge you, and I hope you are already doing this, and I think there is evidence you are, that you be an active advocate on behalf of U.S. commercial interests and that you urge the EU to adopt market practices that are more comparable to what is found in London and New York, which are more modern efficient markets.

Secretary SNOW. Congressman Bachus, I can assure you that that is exactly where we are, and that is precisely what we are doing. I have a meeting in a couple of weeks with Chancellor Brown, the U.K. counterpart with whom I have discussed the EU-

U.S. dialogue. He has expressed some of these same concerns to me, I have expressed them to him.

We very much want to find ways to involve the private sector more fully in the final rules that are adopted, and I share your concern. We cannot let an overly bureaucratic regime replace and substitute for the marketplace.

Mr. BACHUS. Thank you.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from California, Mr. Sherman.

Mr. SHERMAN. Mr. Secretary, I have simply so many questions, I'm going to go through them all, ask you to respond for the record.

Mr. Royce commends you for asking a few European countries to forgive a small portion of the Iraqi debt. I am flabbergasted that this country has not used its political muscle to demand the disclaimer enunciation or permanent deferral of the Saddam Hussein debt, just as the czar's debt was disclaimed or permanently deferred. Instead, money is going to be taken from the Iraqi people, and ultimately the American people, to repay those who financed Saddam's war of aggression against Iran, killing hundreds of thousands of people.

If you lent money to Hitler, I do not think you got repaid even 50 cents on the dollar. The big money that was lent to Saddam was not from Europe, although its great press efforts to try to convince the American people of that, the big creditors are Saudi Arabia, Kuwait, and the Emirates, and now we've got Kuwait wanting another \$50 billion or \$100 billion in reparations for what they suffered in the war. So we liberated Kuwait and now, ultimately, it will be the American taxpayer paying them an extra \$50 billion or \$100 billion, plus the money they lent to Saddam in the 1980s, plus what he cost them in the 1990s.

The Royal Families of Saudi Arabia and Kuwait are getting absolutely great protection from this policy. The American taxpayer is then told we can't loan the \$18 billion, because the Iraqis couldn't afford to pay us back, it will put a strain on their economy, so we have to give it to them.

Now, the true brilliance of that is that that protects Halliburton from European competition. Because now we are told we cannot let non American companies participate for those contracts because it is our money, it is taxpayer money. It is not money being lent to the Iraqis, where they could go out and get the best policy. The money has to go to Halliburton. The hope is that that same brilliance that has been used so effectively to protect Saudi Arabia, Kuwait, and Halliburton will be used on our trade deficit.

Today, we found what it meant for America to surrender its sovereignty to the WTO, or should I say to corporate interests. We are going to open up this whole country to Internet gambling. And I hope the social conservatives understand how the economic conservatives have sold out their interests. You now do not have to leave your house to lose your house. Not because of any State in the country, not because of any Indian tribe, but because we have decided that anything that makes money from any corporation must be imposed on the American people.

While we are talking about gambling, look at the international monetary structure. It is all based on America the consumer, the

rest of the world producing. A half trillion dollar trade deficit this year on top of last year on top of last year on top of last year. You know, Mr. Secretary, that can't possibly be continued. Every year we have to borrow another half trillion and roll over all the money we borrowed in all the previous years. The only question is, will the dollar slide or will it crash?

Unfortunately, Mr. Secretary, your department is doing everything possible to prevent the slide, and so next decade we're going to get the crash. At some point, and it could happen in one day, the dollar will decline in value. This is, in part, because it is too high, in part because we have tolerated what the Chinese are doing and pat ourselves on the back that they may stop stealing from us 6 years from now.

The idea of pressure doesn't mean interrupting a ship filled with imports into the United States, it means sending a letter. This is the most powerful country in the world, which cannot protect itself from unfair trade practices, but we can send strong letters. We are very tough.

The other thing we, of course, do is we have this Pollyannish view that if we cannot prove a violation of trade rules, we assume it doesn't exist. A half trillion dollar trade deficit may be good for American consumers today, a high dollar may be good for American consumers today, it may be wonderful living on our credit cards if we could continue it forever. We will have to decide whether our consumers are more important than our workers, and we could argue that forever. But the fact is, it is going to crash unless we allow it to reverse slowly.

Does the administration have any plan, not to slightly ameliorate the trade imbalance of payments deficits, but to reverse them so that we are shipping more goods and services out and we begin to repay the enormous debts built up under several administrations; or are we going to sit here and fiddle while Rome burns and believe, oh, it worked last year, it will work this year, it won't crash next year.

I do not know if I have time for a response, and I will leave that to the chairman.

The CHAIRMAN. The Secretary may respond in 8 seconds.

Secretary SNOW. Two-part answer on the current account deficit. We need to get the rest of the world growing faster. We talked about that as part of the agenda for growth of the G-7. Hopefully, we will see more growth in the rest of the world so they will have more investment opportunities to use their savings.

By the same token, we need to encourage greater savings in the United States. One way to do that is with the administration's proposals for the RSAs and the LSAs.

Thank you.

Mr. SHERMAN. You cannot save a burning city with one bucket of water, Mr. Secretary.

The CHAIRMAN. The gentleman's time has expired.

Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

Mr. Secretary, there are some positive indicators in the economy right now, and I want to acknowledge those, but I think you would also acknowledge there are some concerns, such as a \$521 billion

projected deficit this year by OMB, a \$7 trillion plus national debt, and my question to you, Mr. Secretary, is how much of our national debt right now, and I don't want an exact dollar figure, but ballpark if you can, is held by foreign nations?

Secretary SNOW. Oh, about one-seventh of the \$7 billion you are talking about.

Mr. MOORE. In dollars, what would that be, sir, approximately? One and a half trillion?

Secretary SNOW. I think maybe that is a little high. I will get you a precise number.

Mr. MOORE. All right. Do you know approximately how much Japan holds of our debt?

Secretary SNOW. Yes, approximately—it is a sizable number.

Mr. MOORE. \$545 billion?

Secretary SNOW. That's about right.

Mr. MOORE. And China holds approximately \$149 billion?

Secretary SNOW. A number in that vicinity.

Mr. MOORE. Should that be a concern, sir?

Secretary SNOW. Not necessarily, Congressman.

Mr. MOORE. Assuming the worst case scenario, and not just not necessarily, what is the worst case scenario if Japan and/or China decided they didn't like the way we were acting and didn't want to hold our debt any more?

Secretary SNOW. China and Japan hold our debt because it is in their interest to do so. The United States remains the best place to invest. On a risk-adjusted basis, we have the highest returns, and we do so because of this extraordinary economy and this extraordinary system of laws.

We protect capital. Capital is a coward. It only goes where it is protected, where it sees stability, where it sees a set of laws that respect property rights.

Mr. MOORE. But my question is what if they decided they didn't want to hold our debt any more? What could happen in the worst case scenario for us?

Secretary SNOW. Well, the great thing about the United States is we are a good investment opportunity for capital of all sorts, whether it is Asia or Europe or America. So I don't see the dread that you see in their holding that substantial debt.

Mr. MOORE. Well, I'm asking a question and trying to get an answer. I'm not hearing an answer.

Secretary SNOW. Well, the answer is I am not alarmed by it. You are asking me if I am alarmed, I'm saying no, I am not alarmed.

Mr. MOORE. Is there any worst case scenario if China and/or Japan decided they didn't want to hold our debt any more?

Secretary SNOW. That is a most unlikely case.

Mr. MOORE. I am asking most unlikely. Is there anything that could happen bad for us?

Secretary SNOW. Well, it is like what is the likelihood of this ceiling falling down on me? That would be a bad outcome, but I think it is very unlikely.

Mr. MOORE. Okay, I will go without an answer.

We have right now the lowest interest rates that we have had in probably four decades; correct?

Secretary SNOW. That is right. That is right.

Mr. MOORE. I have been on the Financial Services and on the Budget Committee for the short time I have been in Congress and have had a chance several times to hear and ask questions of Chairman Greenspan, and one thing he has consistently said is, if our Nation is not in a fiscally responsible position when our economy starts to take off, we could see an alarming rise in interest rates. Have you heard him say something like that?

Secretary SNOW. Well, not alarming.

Mr. MOORE. Well, that is my word. That is not his. But use your own word or use his.

Secretary SNOW. I think what he has said is that we need to control the deficit, make sure that financial markets do not perceive the deficit as an embedded part of our financial structure, as an entrenched part of the financial structure, and to do that we need to control spending and control the deficit. Yes, I have heard him say that, and I agree with him.

Mr. MOORE. Deficits do matter, don't they?

Secretary SNOW. Absolutely deficits matter.

Mr. MOORE. We are not, in my opinion, doing a very good job right now of controlling deficits, when we have the highest deficit in our Nation's history and as far as the eye can see right now. I know the administration's intention is to halve, cut in half, the deficits in the next 5 years. Personally, I don't see that happening. I don't see any plan on the table that is going to make that happen.

Secretary SNOW. Well, I agree with you that deficits count; that the deficit is too large; that it has to be addressed. The only point I disagree with you on is whether we will get there. I think we will.

Mr. MOORE. We pay interest of almost \$1 billion a day right now on our national debt; correct?

Secretary SNOW. Yes.

Mr. MOORE. Does that concern you?

Secretary SNOW. With interest rates low, the interest obligation on the debt has shrunk as a percentage, as you know, of the deficit.

Mr. MOORE. But if interest rates go up, that would change dramatically too.

Secretary SNOW. Well, depending on how much they go up, it could, yes.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Illinois, Mr. Emanuel.

Mr. EMANUEL. Thank you, Mr. Chairman. Thank you, Mr. Secretary. I want to talk a little about a couple of issues here.

I happen to be one of the few Democrats that is pro free trade, having worked to see NAFTA through, and GATT, voted on Chile and Singapore. But if everybody thinks free trade is just an absolute good, they can come to my district. It is not absolute good. There are winners and losers. And I'm sorry, but I think some in this administration and some in the Congress do not put in place some of the benefits and needs and safety nets to make more people winners. If we do not do that, those of us who vote for free trade are going to have to go into a witness protection plan every time we vote for it. Because the economic conditions that happen with free trade are detrimental to folks out there.

I believe in free trade as an ultimate positive overall, but there are losers in this, and we do not have the health care, education,

and retirement security that people need so they think they can be winners too. And you cannot maintain a part of your foreign policy with only 18 percent or 21 percent of the American people supporting it. The biggest, most important thing for foreign policy objective is the support of the American people. Eighteen percent is pretty low, in my view.

Secondly, I want to bring to your attention an issue which early in the administration, you were not there, so it was your predecessor, but we had an effort with the Europeans to crack down on tax evasion and tax havens. In 2001, the administration, specifically your predecessor, abandoned that effort.

There are two immediate benefits, and I will point you to a piece by Mr. Cutner Rose in Business Week, where abandoned that effort and actually killed it. We lose around \$200 billion to \$300 billion, I know that is a rough estimate, in tax revenue. When you run a \$550 billion deficit, even if it is \$150 billion, that would go a long way to reduce the deficit, reducing the cost of capital, and also to help us in our crackdown on terrorists who are using these tax havens.

Now this happened with your predecessor, and here in Washington we all like to kick our predecessor, so you don't even have to own this, but I hope you will take a look at this issue of tax havens as a way to, A, if you want to put it under the banner of fighting terrorism, put it under the banner of fighting terrorism, or put it as everybody has a responsibility to pay their fair share of taxes. People, individuals, and corporations are using these havens to hide legitimate sources of income that should be taxed and are not today. It can be part of an anti-terrorism effort or part of everybody paying their fair share. I don't care what name you call it. I think Treasury should reinstitute cooperation with the Europeans. That is number one.

Secretary SNOW. I thank you for those comments, Congressman Emanuel, and I want to assure you that we recognize, I recognize on your first point that trade creates dislocations; that everybody is not a winner and we need to deal with the transition. That is why initiatives like training programs, assistance for those who are dislocated and so on, are critically important. I agree with you. I regret very, very much that we seem to have lost the broad-based support in the country for trade.

Mr. EMANUEL. Well, let me bring up this point, and hopefully you will look at this other thing on tax havens. But when the HOPE scholarship and the Lifetime Learning was instituted at community colleges, which are the life blood of the new economy worth \$1,500 on average, today they are \$2,000, yet the HOPE scholarship is stuck at \$1,500. Pell grants are frozen 3 years in a row. The average Illinois graduate from the University of Illinois graduates with \$18,000 in debt. I don't think when you get your diploma you should get your first Visa bill.

Health care costs, the lion's share now are being shoved to the employee. We have 401(k) problems in the mutual fund industry. And that is why—you know, everybody wants to talk about the greatest economic statistics. The reason you have fear out there is not just employment; it is that the entire infrastructure of the middle-class life, from retirement to health care benefits—

The CHAIRMAN. If I could interject, the gentleman from Illinois, we have got a vote coming up. I know the Secretary has to leave. What I would like to do is accommodate the other three members who have not had a chance——

Mr. EMANUEL. I am done.

The CHAIRMAN. Let us try, if we could, limit it to 3 minutes apiece, and then I think we can all make that vote.

The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you very much.

Two quick questions, Mr. Secretary. Earlier this week the corporate tax overhaul bill failed over in the Senate. Do you have any ideas or suggestions or the administration on how we could move forward with a bipartisan bill to address the European trade sanctions that have been in place in response to the current export tax breaks?

Secretary SNOW. Congressman, I don't have any specific suggestions on how to do it, but I certainly would implore the Congress to act on it. It is awfully important to get that resolved so these sanctions don't adversely affect our economy and our recovery.

Mr. SCOTT. Let me ask you one other quick question, too. Going back to outsourcing for a moment. We have talked about that. But there is one feature about outsourcings that we have not touched upon, and that is the type of jobs that are being outsourced into dealing with our American financial institutions, credit bureaus, dealing with vital important information that banks are processing overseas in foreign countries that contain vital financial data about American consumers and our financial institutions. Do you feel that we have adequate safeguards to deal with what is obviously a privacy and soundness issue and a security issue? And it is particularly true given the current opinions and the level of dislike or hatred that European countries especially and countries in the Middle East have for Americans and American institutions at a time when we do have these heightened security concerns.

Secretary SNOW. Congressman, I am not an authority on the question you are raising. I will try and get you a more complete answer. But the PATRIOT Act will apply to those companies as will the Fair Credit Reporting Act. So you have both the PATRIOT Act and the Fair Credit Reporting Act, as amended, continuing to apply.

Mr. SCOTT. All right.

Secretary SNOW. Those are the source of our ability to deal with the issues you are raising.

Mr. SCOTT. But do you yourself, as the Secretary of the Treasury, believe that we are vulnerable or that what we have now is adequate?

Secretary SNOW. Well, I think that the legal framework we have in place certainly gives us the ability to deal with the questions you are raising.

Mr. SCOTT. Thank you.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Texas, Mr. Bell.

Mr. BELL. Thank you, Mr. Chairman. I will be brief.

I wanted to ask you about something which appears in your prepared statement on page 2 regarding the agenda for growth and

the United States' contribution to that. It seems to state that, as for the United States, our contributions will be basically the platitudes that we hear from this administration. And I am curious as to what we are actually doing.

It says that our contributions will be through the President's commitments to maximize growth and job creation. This includes spurring savings through changes to the tax system, making health care more affordable, working to prevent frivolous lawsuits from diverting money from job creation, so on and so forth.

My question has to do with our credibility and if that is going to be our only contribution. How are we making health care more affordable? Most people would argue that it is going in the other direction, not becoming more affordable. I know you are not going to suggest that we have succeeded in preventing frivolous lawsuits. If you do, that would take away a major campaign plank from the other side of the aisle where we hear that frivolous lawsuits are incredibly abundant in this day and age.

And as we are preparing American workers for demands of the 21st century job market, what we continue to hear, Mr. Secretary, is the fact that there are not enough programs out there preparing people for new jobs when their line of work has gone away.

So I am curious, is this going to be our only contribution? And what is your comment on that?

Secretary SNOW. Well, I am disappointed you had those as platitudes, Congressman, because they are a lot more than that. They are really an action plan.

The action plan involves of course action by Congress, and that is why the President among other things is urging Congress to pass the reform of the energy plan, to adopt a new energy plan which makes us less dependent on certain and expensive foreign sources. The plan, the action plan of the President calls for going after frivolous lawsuits. We haven't fully succeeded, but I must say, as I have gotten into this issue of frivolous lawsuits more and more, I regard the abuse of the litigation system as a serious threat to jobs in the United States. I have talked to any number of business leaders who have—small business, medium sized, large business—expressed enormous concern that the litigation system is changing the basic, the basic sort of ethos of America, making us a "can sue" society rather than a "can do" society, altering our basic commitment to a whole set of ideas of enterprise and entrepreneurship and things.

Mr. BELL. And when you refer to frivolous lawsuits, are you referring to those that result in large verdicts that obviously juries do not view as frivolous, or are you referring to those that are just the cost of litigation in general?

Secretary SNOW. Well, it is the cost of litigation in general, but it is the lottery nature of the litigation system which is producing verdicts that are, I think, excessive under the circumstances, and that go 40 percent to the personal injury lawyers rather than to the litigants. I think we need to deal with this issue of the class-action system. A business firm taking into account whether to invest in Ohio or Illinois or offshore is going to factor in the risks of litigation. They are going to factor in the risks that litigation presents to their ability to get reasonable health care costs. And I think the

evidence is pretty clear that the litigation system is driving lots of physicians and doctors and health care providers and nurses out of that profession, raising the cost of health care in the United States.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Washington State to wrap up.

Mr. INSLEE. Thank you.

Unless we provide some relief to the difficulties of the dynamics of trade, the trade base is going to be lost for those who support trade. And to that end, many of us believe that we should extend trade adjustment assistance to service employees as we do now those in the manufacturing sector. Obviously, we have a lot of folks who heretofore have not felt threatened by international trade now in the software sector, telecommunications, actuaries, radiologists, you name it. Adam Smith and I have introduced a bill to do exactly that, and I would hope the administration would support this. The President's Council on Trade and Exports will make that recommendation to you shortly, I believe.

Could you help us on that? Could you talk to your committee chairs and help push this bill? What do you think of this idea?

Secretary SNOW. Well, it is an area that really falls more under the jurisdiction of Bob Zoellick, the Trade Rep, and Secretary Evans and Secretary Chao. But I know the issue is under active review.

The broader question is under active review as well; that is, providing transition assistance to those adversely affected by trade. I agree with you, we need to provide opportunities for those so that there is an easier transition to the future.

Mr. INSLEE. Do I take it that we have an ally who will be arguing for the extension of trade adjustment assistance to the service sector?

Secretary SNOW. Congressman, you have an ally for the broader proposition, that effective transition assistance needs to be provided. Whether it is precisely that legislation or something else, I am not close enough to it to give you a good answer.

Mr. INSLEE. Thank you.

The CHAIRMAN. I thank the gentleman.

Mr. Secretary, again, thank you for your appearance. It is always good to have you before the Financial Services Committee, and the committee stands adjourned.

[Whereupon, at 12:55 p.m., the committee was adjourned.]



# **A P P E N D I X**

March 25, 2004

Opening Statement  
**Chairman Michael G. Oxley**  
 Committee on Financial Services

Hearing to Receive Testimony of  
 Secretary of the Treasury, John Snow  
 March 25, 2004

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Good morning, Mr. Secretary, and welcome to the Committee.

We look forward to your testimony on the state of the international financial system. This hearing has its origins in the emerging market financial crises of the late 1990s and subsequent reform of the international financial institutions. The goal was to make the International Monetary Fund, the World Bank, and the regional development banks more effective at promoting and delivering economic growth, particularly in the emerging markets.

Congress exercises its oversight regarding the reform efforts by requiring the Secretary of the Treasury to report annually to Congress. Since the G-7 is integral to reform, we also seek perspective on the G-7 agenda for both global growth and development policy.

Mr. Secretary, the Treasury Department has engaged in a number of successful international programs over the last year. Let me focus on a few of the more important initiatives.

***Fostering Global Growth***

- The Treasury Department under your leadership has taken a broad view of how to link development, trade, and macroeconomic policy to create an environment that can foster global growth. The Treasury's leadership in working with our G-7 allies to craft an international "Agenda for Growth" is to be commended. Last week, the Council on Foreign Relations released a study that identified transatlantic economic cooperation as one of five key ways to strengthen the relationship between the U.S. and the E.U. They noted in particular that transatlantic commerce approaches \$2.5 trillion per year and employs directly or indirectly some 12 million workers in Europe and the United States. It's good to see that increased regulatory transparency and coordination have been identified as areas for additional work within the G-7. One area of particular interest in this connection is the U.S.-E.U. regulatory dialogue. Economic growth cannot occur if financial institutions are overburdened with conflicting regulatory standards. I will be particularly interested to learn how the U.S.-E.U. dialogue can be used to promote growth across the Atlantic and reduce costly regulatory barriers, where appropriate.

I note also the importance that remittances can play to generate real economic growth in emerging markets throughout the world, not just Latin America. Remittances between established and emerging economies foster growth in both types of economies simultaneously. I will be interested in hearing your views on how unnecessary costs can be eliminated in this area. As you know, this is an issue of importance to this Committee. We held a hearing on the issue last fall, and recently some Members of this Committee sent you and Ambassador Zoellick a letter on the topic.

Oxley, page two  
March 25, 2004

***Free Trade***

- As you know, I believe firmly that free trade and growth through exports is a fundamental building block for economic prosperity and democracy, both at home and abroad. The Treasury Department, through the Executive Directors at the multilateral lending institutions, has encouraged the establishment of programs aimed at creating market-based economies that are open to trade.

At home, the Treasury Department is the lead negotiator for the financial services chapters of all trade agreements. I support your efforts to open markets for our financial services firms and your efforts to create trade-friendly environments to help emerging market economies grow.

***Flexible Exchange Rates***

- Through the G-7, you have provided leadership and support for countries around the world to move towards flexible, market-driven exchange rates. As you know, I co-sponsored H.Res. 414 last fall. That resolution promised that Congress would work with the Administration to help China move as quickly as possible to a more flexible exchange rate. Since that time, the Treasury Department has dispatched a team of technical experts to advise the Government of China, and China has announced that it will move towards a more flexible exchange rate system in six years. These are promising developments.

***Performance-Based Standards for Development Programs***

- The Treasury Department has shown great leadership in fostering the development of performance-based standards for development programs both within the World Bank and at home, with the Millennium Challenge Account.

You have also led the effort to incorporate external audits of performance standards within development institutions. This is particularly positive, since appropriations for the multilateral institutions are now expressly conditioned on such external audits occurring. We look forward to seeing progress in this area.

***Rebuilding Financial Systems in Iraq and Afghanistan***

- The Treasury Department and its civilian employees have been among the first and most successful teams on the ground in Iraq and Afghanistan. No economy can function without reliable banking and payment systems, and your team has helped create new currencies, banking systems, modern payment systems, and free and open capital markets. I congratulate you and the people who work under dangerous conditions to make these things happen.

***Argentina and the IMF***

- Challenges remain, of course. The most critical of these challenges is, once again, Argentina and its relationship to the IMF. Since being cut off from international capital markets, Argentina's economy has growth because it has not been paying its debts; it has been servicing debts to one development institution with payments from another.

This sends troubling signals to other sovereign borrowers around the world, especially those who continue to service their debt in good faith. I will be very interested to hear your views on how the Argentine situation can affect the reform debate within the G-7 and the IMF.

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CONGRESSMAN JOE BACA  
**March 25, 2004**

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I want to thank you, Secretary Snow, for appearing here today. I look forward to hearing your testimony and asking tough but necessary questions regarding the state of our nation's economy.

I have three areas of concern. I am concerned with the current unemployment rate that seems to be rising so fast, especially for Hispanics and African Americans. I am concerned with the current pace of outsourcing. And I am concerned that financial literacy programs are not proving helpful.

President Bush has overseen the disappearance of a record 2.9 million private sector jobs since 2001. The overall unemployment rate fell to 5.6%, but this is mostly due to the 1.7 million Americans who are no longer searching for employment. The Hispanic unemployment rate rose from 6.6% to 7.3%. The manufacturing sector shed 2.8 million jobs in three years, job losses that disproportionately hurt Hispanics.

The Bush Administration has publicly stated that outsourcing is good for the economy. Treasury Secretary Snow, even claimed that outsourcing is good for a company's employees. But what the Administration doesn't understand is that outsourcing hurts real Americans. A manufacturing firm from my district recently laid-off over 100 workers. That's over 100 workers who are now getting unemployment benefits and are wondering how they're going to clothe their family and feed their kids. They didn't benefit from outsourcing. Something must be done to help these workers.

Hispanics and other minorities are being hit hard. We are out of work at higher rates than ever before. Unemployment benefits are ending. Food banks and hunger organizations report that more people are asking for help.

For those that do have jobs they face hard decisions. For many immigrants they send their savings home to Latin America, Africa and Asia, in the form of remittances. But a recent study showed that about half of those who send remittances did not know they were being charged additional fees. Only less than one-fifth knew that the differences between published exchange rates and the rates used in the transfer process could reduce the amounts delivered. Immigrants need a competitive market to receive the lowest fees

and they need more financial education to learn how best to send money home.

I look forward to hearing what Treasury Secretary Snow will do to create high-paying jobs for Americans and educate immigrants on financial literacy.

March 25, 2004

Statement of the Honorable Rahm Emanuel  
U.S. House of Representatives  
Committee on Financial Services

Mr. Chairman, I would like to thank you for holding this important hearing on the state of the international financial system, IMF reform, and compliance with IMF agreements. I also appreciate that our distinguished guest, Treasury Secretary John Snow, has taken the time to share his views with us on these topics.

While I am concerned about the topics Secretary Snow plans to discuss today, I wanted to take this opportunity to focus on a critical issue I see here at home: the proliferation of abusive tax shelters used by corporations and the wealthy. These tax shelters deprive the U.S. Treasury of billions of dollars annually and add to the already-crushing burden on the middle class families who are left to pick up the slack.

While I applaud the Treasury Department's push for increased funding to beef up IRS' enforcement staff, these efforts are insufficient. The tax shelter problem will not be solved by focusing on tax cheats alone. The proliferation of abusive tax shelters must be attacked at its source—by cracking down on the accountants, attorneys and investment banks that have spawned a cottage industry that creates, implements, and mass markets tax shelters.

Along with 11 cosponsors, I have introduced bipartisan legislation, *The Auditor Independence and Tax Shelters Act (H.R. 3599)*, to strengthen the independence of auditors by prohibiting them from providing tax shelter services both to the publicly traded corporations they audit and to the corporation's officers and directors. This legislation would eliminate the multiple, irreconcilable conflicts of interest that arise when accounting firms serve in the dual role of "tax services" advisor and auditor.

This bill is a companion to legislation introduced by Senators Carl Levin, John McCain and Max Baucus, S. 1767. On March 15, 2004, Representative Doug Bereuter and I sent a letter to Capital Markets Subcommittee Chairman Richard Baker asking for hearings on these critical auditor independence issues. To that end, I am hopeful that the Members of this Committee will work together to close this loophole and recapture billions of dollars for the U.S. Treasury.

There are other important steps that the Administration should immediately take in order to close a tax gap that is now estimated at \$300 billion annually. The Bush Administration should drop its opposition to *The Corporate Patriot Enforcement Act*, a bill that would eliminate the tax shelter benefits dozens of U.S. companies receive by incorporating offshore with a mailbox in tax havens like Bermuda.

President Bush should also encourage the Republican Congressional leadership to schedule debate and a vote on *The Corporate Patriot Enforcement Act*, a step they have refused to take because they fear it will pass. The passage of this legislation would result in revenue recovery and would end a shameful, unpatriotic practice.

The Bush Administration should also withdraw its opposition to and embrace the joint U.S.-European tax haven initiative that was in place in 2001 when the President took office. It is estimated that the tax avoidance targeted by this initiative cost the U.S. and Europe more than \$200 billion in annual revenue. If the Administration is truly committed to combating terrorism, why does it refuse to take the necessary steps to crack down on money laundering by terrorists? This plan strengthens reporting requirements for international banks and companies, thereby reducing terrorists' ability to freely direct profits to crooked tax havens.

Mr. Chairman, it is not fair to ask middle class families to bear the burden for those who refuse to meet their tax obligations. If we do not take decisive action to eliminate tax shelters, Americans will come to believe that the deck is stacked against them, and they will lose faith in the income tax system. To that end, I look forward to continuing to work with my colleagues in Congress and with the Treasury Department to ensure that the tax system is progressive, fair and equitable.

March 25, 2004

Opening Statement by Congressman Paul E. Gillmor  
House Financial Services Committee  
Full Committee Hearing to receive Annual Testimony of the Treasury on the State of the  
International Financial System

Thank you, Mr. Chairman, for holding this important hearing and Mr. Secretary for making yourself available to us this morning.

I look forward to hearing your report on the progress of important reforms within the International Monetary Fund (IMF) and specifically its program for evaluating the performance of nations receiving IMF assistance.

As an original cosponsor of H.Res.414, legislation that passed the House on October 29, 2003, encouraging the People's Republic of China to fulfill its commitments under international trade agreements and establish monetary and financial market reforms; I am also very interested to hear your comments on Treasury's negotiations with Chinese officials regarding their current exchange rate policies.

I am also an original cosponsor of H.R. 3058, the Currency Harmonization Initiative through Neutralizing Action Act of 2003; calling for a Treasury Department investigation into Chinese currency manipulation and the imposition of equivalent tariffs on Chinese products should an affirmative determination of manipulation be made.

I am encouraged by the Treasury Department's establishment of a special attaché in the U.S. Embassy in China and the involvement of your technical assistance team in advising the Chinese on exchange rate flexibility, but manufacturers in my district need to see concrete results.

Thank you again, Mr. Secretary, for coming before us today and I look forward to a very informative session.

OPENING STATEMENT  
**PETER T. KING**  
before the  
COMMITTEE ON FINANCIAL SERVICES  

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March 25, 2004

Thank you, Chairman Oxley.

Secretary Snow, I would also like to welcome you to the Committee and certainly look forward to your testimony.

As the subcommittee chairman on this committee tasked with international finance policy and trade, let me first say I continue to look forward working with you and your staff on ensuring the growth and stabilization of world financial markets.

As you know, this is achieved by eliminating isolationist barriers like “pegged” exchange rates, promoting free and fair trade and ensuring debt relief to poor and developing countries.

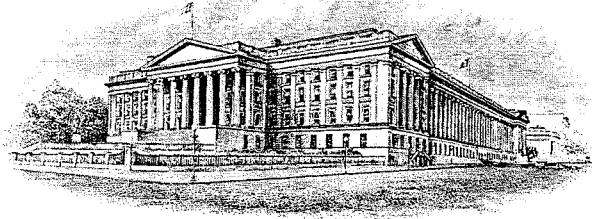
Last fall, the Domestic and International Monetary Policy Subcommittee held a hearing examining the impact of China’s exchange rate on the US economy. I was pleased to hear you press this issue with the Chinese government during your trip to their country. It is my

understanding the Treasury has dispatched a technical assistance team to advise China on how to increase exchange rate flexibility. I look forward to your testimony on the progress of this important initiative.

Concerning more recent events, I am very interested in hearing your remarks with respect to Argentina and Iraq. Much has been discussed about Argentina and the IMF's ability to create incentives for countries to implement responsible economic and structural policy reforms. I am curious to hear if you believe Iraq poses a similar problem during the rebuilding effort.

Lastly, I would like to just reiterate my support for your efforts in ensuring the growth and stability of both the US and international financial community. Ensuring a level playing field with our foreign counterparts is mutually beneficial for all parties.

Thank you again, Secretary Snow, for your participation today and I yield back the balance of my time.



**DEPARTMENT OF THE TREASURY  
OFFICE OF PUBLIC AFFAIRS**

**EMBARGOED UNTIL 10:00AM  
March 25, 2004**

**Contact      Tony Fratto  
202-622-2910**

**TESTIMONY OF TREASURY SECRETARY JOHN W. SNOW  
BEFORE THE COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES**

**STATE OF THE INTERNATIONAL FINANCIAL SYSTEM**

Chairman Oxley, Representative Frank and Members of the Committee, thank you for inviting me here today. I welcome the opportunity to discuss the Administration's international economic agenda.

This is a time of opportunity. The global economic recovery has accelerated in the last six months. Economic stability is also improving, and risks have diminished. But we cannot be satisfied. The Administration's top priority is to achieve stronger and more lasting growth – in the United States and in the world economy as a whole. Our international economic policies are aimed at doing just that. Since the United States holds the chairmanship of the Group of Seven (G-7) this year, we have an important opportunity to lead change.

**Promoting Strong, Sustained Growth in the Major Economies**

Achieving growth in the major economies is fundamental to strengthening growth at home and worldwide. Indeed, the global economic recovery has accelerated in the last six months.

The United States is leading the way with a strengthening recovery. The President's tax cuts, passed by Congress, have worked. They have provided the stimulus that was necessary to turn the economy around, and they are now encouraging and allowing for the economic growth that is continuing into the future. The evidence is clear. Economic growth in the second half of 2003 was the fastest since 1984. New home construction in

2003 was the strongest in 25 years, and homeownership levels are at historic highs. Manufacturing activity is increasing. Inflation and interest rates are low. Jobs are coming back, and the unemployment rate is falling. Indeed, these facts all point to the same conclusion: We are on a path to sustained economic growth. However, there is more to do. We are not, by any means, satisfied. We will keep working until every American who wants to can find a job.

Beyond the United States, there are also promising signs. Japan's economy is recovering, with a strong contribution from domestic investment. Even in continental Europe, where growth is still lagging, the indicators are positive. And there is evidence that the momentum for growth continues to build, as financial markets strengthen, inventories fall, and investment picks up. More broadly, geopolitical uncertainties have eased, and economists see fewer downside risks.

Despite the positive outlook, we are convinced that action is needed to bring about stronger growth that is broad-based and sustainable – and less reliant on a single engine. Indeed, the need for stronger growth was at the top of the agenda when I hosted my G-7 colleagues in Boca Raton in February. This was the first Finance Ministerial convened by the United States during our chairmanship of the G-7 this year. I was extremely pleased with the consensus at this meeting about the importance of growth and that structural reforms – marginal tax rate reduction, labor market reform and regulatory reform – are needed to raise economic performance over the long term.

The strength of our shared commitment to follow through on structural reforms is reflected in the path-breaking Agenda for Growth initiative, which was launched by the G-7 last September. This initiative focuses on reforms to boost productivity and employment, and thereby increase economic growth. Strong fiscal and monetary policies are vital. But it is also essential that we implement structural reforms in the major economies to enhance the potential for sustained and strong growth.

Each G-7 country has taken concrete actions to advance these goals of the Agenda for Growth initiative. For example, Canada has fully implemented a five-year, \$100 billion tax reduction plan. Germany has enacted key elements of a reform initiative to improve work incentives as well as to reduce taxes. And each of us has committed to going further to increase labor and product market flexibility, boost productivity and raise employment. The United Kingdom, for instance, is establishing a long-term strategy for funding innovation and scientific research, extending skills training programs, and proposing a collaborative initiative on regulatory reform across the EU. Japan will work on further fiscal expenditure and revenue reforms, including in the social security system, and will continue to address financial sector reforms. And France will continue its work to reduce labor market constraints, while also pursuing health care reform.

As for the United States, our contributions will be through the President's commitments to maximize growth and job creation. This includes: spurring saving through changes to the tax system; making health care more affordable; working to prevent frivolous lawsuits from diverting money from job creation; streamlining regulations; preparing

American workers for the demands of the 21<sup>st</sup> century job market; and working to make tax relief permanent, so that families and businesses alike can plan for the future.

The Agenda for Growth marks a fundamental change in the way the G-7 operates. I am truly hopeful that the commitments each country has made will translate into tangible results – in terms of improved prospects for our economies and the world economy as a whole. Combined with strong macroeconomic policies, including sound fiscal policies over the medium-term, this initiative is also an important step to addressing global current account imbalances.

### **Opening Markets and Reducing Barriers to Trade**

Opening markets and reducing barriers to trade are key engines for domestic and global economic growth. Trade leads to more jobs, higher wages and increased productivity. It is through free trade that all nations can benefit from each other's prosperity. Free trade means new markets for exporters.

From the launch of the Doha negotiations in November 2001, the United States has consistently played a key leadership role in moving these negotiations forward and pressing for an ambitious outcome. We all missed an opportunity in Cancun to advance the cause of trade liberalization. Nonetheless, there are hopeful signs that we can get the Doha Development Agenda back on track again so that 2004 is not a lost year. The focus of the WTO negotiations should be the market access agenda – agriculture, industrial and consumer goods, and services. These areas have the greatest potential to promote economic growth. For developing countries to realize the benefits of trade, they too need to reduce their own trade barriers substantially. Developing countries collect most of their tariffs on trade with other developing countries. In particular, efficiency gains from trade liberalization in the financial services sector could be beneficial for many emerging markets.

But even as we ponder the next steps in the WTO, the United States continues to press an aggressive trade agenda to open markets regionally and bilaterally with willing partners. For example, we have recently concluded free trade agreements with Central America (CAFTA), Morocco and Australia, and we are negotiating additional free trade agreements in Africa, Asia, Latin America, and the Middle East. By moving forward on multiple fronts, we can exert leverage for openness and create a new competition for trade liberalization.

As I have made clear before, it is our strong view that the international trading system works best with free trade, free flow of capital and flexible market-based exchange rates. It is widely recognized throughout the world that free markets and market-determined prices are best able to allocate scarce resources to their most productive use. This is as true for domestic markets as it is for international markets. While the choice of an exchange rate regime is up to each country, we have been encouraging countries to use flexible exchange rates. Flexible exchange rates ease the adjustment to changing economic conditions in the international financial system. We recognize that, especially

in the case of small open economies, there are benefits from a “hard” exchange rate peg, such as dollarization, joining a currency union, or using a credible currency board. Of course, a flexible exchange rate will not prevent the economic damage that is caused by a bad economic policy. A good flexible exchange rate regime requires a monetary policy with a focus on the goal of price stability, and with it a transparent, systematic procedure to adjust policy instruments in order to achieve that goal.

In Boca Raton, G-7 Finance Ministers and Central Bank Governors reinforced the importance of flexibility, stating:

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely and cooperate as appropriate. In this context, we emphasize that more flexibility in exchange rates is desirable for major countries or economic areas that lack such flexibility to promote smooth and widespread adjustments in the international financial system, based on market mechanisms.

This statement is consistent with our strong dollar policy, which I have consistently reiterated since my confirmation hearing. A strong dollar is in the U.S. national interest.

One country where we have been particularly active on the issue of exchange-rate flexibility is China. China has pegged its currency to the dollar for ten years. This Administration has stressed that China needs to move to float its currency as soon as possible. President Bush and I emphasized this point in all our China meetings late last year, and I will press it again when I meet with China’s central bank governor tomorrow. China agrees that it needs a flexible rate, and we are making a lot of progress in that direction. To facilitate China’s transition to a flexible regime, the Treasury Department and China’s central bank have already begun a Technical Cooperation Program. China is also accelerating liberalization of its capital account and taking major actions to shore up its banking system.

We are stepping up our diplomatic efforts as well. Soon I expect to announce the appointment of a high-level emissary in Beijing who can start work in early spring, and China’s cabinet is committed to a face-to-face dialogue with me on all these developments. I believe this broad-based full-scale diplomatic approach is the best path forward. It can also help address exchange-rate inflexibilities throughout the Asian region, consistent with the G-7 Boca Raton communiqué.

#### **Fostering Growth and Stability in Emerging Market Economies**

There is promising news among emerging markets as well. Many emerging market economies are experiencing higher growth rates, along with reduced interest rate spreads and improved equity markets. This is very good news, particularly after the frequent and severe crises that had become prevalent among such countries in recent years.

Stronger performance among emerging market economies is following concerted efforts to reform the international financial system to reduce the frequency of crises, support policy reforms by individual countries, and improve access of emerging market economies to private capital flows. Some of this work has focused on the International Monetary Fund – where reform is essential to our efforts to advance growth and stability.

I want to review for you some of the progress made in the last year – in particular through steps such as inclusion of collective action clauses in emerging market debt, limits on exceptional access to IMF lending, and improved IMF analysis of economic performance and vulnerabilities. (An account of reforms in the IMF is provided in Treasury's Report to Congress on Implementation of Legislative Provisions relating to the International Monetary Fund, October 2003.)

Two years ago, the United States took the initiative – in cooperation with other industrialized countries, emerging market issuers and the private sector – to advocate widespread inclusion of collective action clauses (CACs) in external sovereign debt. CACs are contractual provisions that can make debt restructurings more orderly and predictable in cases of unsustainable financial stress. Mexico included CACs for the first time in its New York law-governed bonds just about a year ago. And now CACs are on their way to becoming standard in internationally-issued sovereign bonds. A range of countries, including early CAC issuers Mexico, Brazil, Korea, South Africa and Turkey, have demonstrated that including these clauses in their issues has had no impact on pricing. And since the New Year, the Philippines, Panama, Colombia, Costa Rica, Venezuela, Indonesia and Israel have all included these clauses in their New York-issued bonds. Along with the IMF and others in the international financial community, Treasury continues to discuss the benefits of these clauses with potential sovereign issuers, as we work to build on this important trend in strengthening market practices.

To help prevent contagion as well as to provide the right incentives for strong policies, it is important to make clear that official resources are limited and are not endlessly available. We have indicated that the IMF must be the primary source of official resources for countries facing acute financial crises. And we have underscored the limits on the IMF's resources by making clear that there will be no quota increase in the foreseeable future. Within the IMF, we have worked to reinforce the limits on official finance by strengthening the guidelines for IMF lending. While reducing IMF exposure to current exceptional-access programs will take time, we have made important progress over the past year in narrowing and specifying the circumstances under which countries could access large scale IMF lending. Among other things, the IMF will prepare and publish a separate report evaluating the case for exceptional levels of lending whenever they are requested.

The United States clearly has a strong stake in helping countries recover from financial crises, and we have strongly supported the IMF's engagement with Argentina as it has worked to stabilize its economy. These efforts have been producing results. The Argentine economy has stabilized considerably since the crisis, with GDP growing 8.7% last year, inflation falling to 4%, the exchange rate appreciating by 14% and reserves

growing by \$3.5 billion. Argentina's current three-year IMF program launched in September provides the basis for Argentina to consolidate its recent macroeconomic progress and to adopt the reforms needed to lay the basis for sustained growth in the years ahead. The program also provides the broad policy framework to underpin a debt restructuring agreement between Argentina and its creditors by requiring Argentina to work in good faith with its creditors to reach a collaborative agreement that restores debt sustainability.

Of course, the best outcome would be to avert crises before they occur. To help enhance crisis prevention, we have focused on strengthening the IMF's surveillance of its members' economies. In the last year, the IMF has also strengthened its analytics – through more systematic and transparent assessments of debt sustainability across emerging market countries and through more extensive consideration of balance sheet fragilities. And the IMF has taken a vital step forward to make its analyses widely available by establishing the presumption that country documents and lending program papers will be published.

The aim of our reform efforts has been to give greater clarity and accountability to IMF decisions. Doing so will provide greater predictability to markets. While important progress has been made, we are reviewing these reforms to determine whether we have done everything we can to ensure that we have a modern international policy framework appropriate for today's modern financial markets.

Protecting the integrity of the international financial system is fundamental to growth. In this context, we remain strongly committed to combating terrorist financing and money laundering. We are working closely with the IMF and World Bank and encouraging them to assess country compliance with the entire set of FATF Recommendations on a permanent, comprehensive and sustainable basis. Working with the international financial institutions is a key element of the broader effort, which focuses on helping countries identify and address shortcomings in their anti-money laundering and combating terrorist financing regimes – thereby bolstering the underpinnings of stronger, sustainable economic growth and development.

#### **Fueling Growth and Better Living Standards in the Poorest Countries**

In the poorest countries, the quest for growth provides the best hope for the future. Economic growth, led by the private sector, is the most effective means of promoting sustainable development and reducing poverty. Enhancing productivity is the key to progress and depends on sound national macroeconomic and governance frameworks.

The Millennium Challenge Corporation (MCC) aims to sharpen the incentives for countries to establish these conditions for growth. Ruling justly, promoting economic freedom and investing in people are the hallmarks of a strategy that can produce results. By allocating assistance based on objective indicators of performance in these key areas, the MCC aims to reinforce the efforts of countries working to improve their own prospects. President Bush signed the law creating the MCC on January 23, and the Board

acted quickly to get the MCC operational, meeting for the first time on February 2. On March 5, 2004, the MCC sent to Congress a report describing the criteria and the methodology by which eligible countries will be selected from the list of candidate countries. The MCC will focus specifically on promoting sustained economic growth through investments in areas such as agriculture, education, private sector development, and capacity building. The MCC provides a tremendous opportunity to demonstrate how linking assistance to results can help bring success in achieving growth and development.

In the World Bank and the other multilateral development banks (MDBs), the United States has been promoting a set of key reforms to focus the institutions more centrally on their core missions and enable them to play a more effective role in promoting sustainable growth and poverty reduction. There have been significant achievements over the past year, and further improvements are expected, particularly in the context of ongoing negotiations to replenish the institutions that provide assistance to the poorest countries: the International Development Association (IDA), the African Development Fund (AFDF), and the Asian Development Fund (ADF).

President Bush's new grants initiative – first proposed in 2001 – is now well established in IDA and the AFDF, and the United States is in the process of negotiating a new grant program in the ADF, as well as seeking expansion of grant programs in IDA and the AFDF. Grants have proven particularly useful to address the needs of countries with serious debt sustainability problems and for post conflict countries. Last week, Under Secretary Taylor led a mission to Africa to assess how the new grants were being received in the poorest countries, and found strong support and enthusiasm for this important new initiative.

In order to reinforce these reforms and strengthen the accountability of the MDBs, working with Congress we have set out ambitious goals to increase the transparency of the MDBs' decision-making processes. In particular, the United States has advocated greater availability of information on MDB projects, policies, Board meetings, fraud and corruption cases, and results indicators. We have also urged MDBs to make public the details of their internal systems for allocating assistance and establish a plan to conduct regular, independent audits of internal management controls.

All of the MDBs are currently in the process of establishing results management systems that set monitorable and measurable results objectives at the project, sector, country and institution level. To provide a catalyst for this effort, the United States introduced an incentive as part of the United States' IDA-13 contribution, pledging an additional \$300 million if the institution met specific performance and outcome targets. IDA achieved the initial targets set for last spring and is working on a new set of outcome objectives in the areas of private sector development, health and education. We have called for an independent audit to verify achievement of these goals.

The *private sector* plays a critical role in fighting global poverty and creating jobs in developing countries. This is why the successful initiative to allow a portion of IDA funds to be used to promote private sector development was so important. For the last several years, the United States has urged a greater emphasis on assistance to small

businesses along the lines of the IDA/International Finance Corporation (IFC) initiative to promote SMEs in Africa which was approved this past year. There is strong evidence that small businesses are critical to employment generation in most developing countries, but there has been inadequate attention given to this critical sector by both multilateral and bilateral donors.

In February, we gained G-7 agreement to push the MDBs to work with governments to improve investment climates and provide more resources to support the private sector. In particular, to help countries establish the strong enabling environment needed for the private sector to flourish, we have called on the MDBs to prepare assessments of the impediments to private sector investment and action plans to address the key weaknesses in each country. We are also seeking ways to involve the private sector more closely in the development of MDB lending strategies.

Facilitating the flow of *remittances* is another promising avenue for promoting growth and development in the poorest countries. By far, the largest source of assistance to developing economies is not the governments of wealthy nations, or even the multilateral development institutions. It is family members who have gone abroad to work and send a portion of their incomes back home in the form of remittances.

Providing these remittances, which totaled more than \$90 billion last year, often requires a huge sacrifice on the part of the immigrant worker. Many of these workers have incomes that are barely above the poverty line in their countries of residence, yet they send substantial shares of their pay home. For example, the average Latin American immigrant in the United States earns less than \$25,000 annually, yet he or she sends, on average, \$2,000 back home each year. And on top of this, the immigrant often pays high fees to send the funds. Once these flows arrive at their destination, limited access to or knowledge of financial services often constrains the recipients' options for saving or investing the funds – for example, for education expenses or for small business enterprises. Thus, tremendous potential for remittance flows to contribute to economic growth and development is lost.

The United States is taking the lead in addressing the cost and access issues related to remittances. The Administration has launched several initiatives with bilateral and multilateral partners since 2001. The bilateral work has focused on Mexico and the Philippines, where the objectives are to identify and address the physical and regulatory barriers that may exist and to promote competition among remittance service providers. Most recently, the United States secured G-7 agreement to identify problems in each of their countries and map out a strategy for addressing these barriers. By working together, bilaterally and multilaterally, we aim to enhance significantly the potential for recipients of these flows to invest in their future – and make a measurable contribution to growth and development in their native economy.

### **Supporting Economic Revival in Afghanistan and Iraq**

I want to provide some details today on our work to support economic revival in Afghanistan and Iraq.

In February 2004, the G-7 Finance Ministers and Central Bank Governors issued an Action Plan on Afghanistan, the first such plan based on an individual country. In the Action Plan, the G-7 committed to producing visible and measurable results in Afghanistan by June, when the Afghan government is planning its first nationwide elections in over 20 years. To meet this deadline, the United States has set challenging targets in program areas, including the number of police trained and schools built. The G-7 and other donor countries are also deciding on goals that will advance their reconstruction programs in Afghanistan. The Afghan government has also set tough goals for itself in areas such as increasing domestic revenue collection by 50% in its next fiscal year.

In Afghanistan, Treasury has been focused on developing the government's ability to manage its financial accounts. Treasury provided a budget expert to the Ministry of Finance in February 2002, who helped the ministry manage and computerize expenditures and revenues. Treasury is working with the Afghan government to improve domestic revenue collection and coordinates with other donors to ensure that the government's operational expenditures (such as salaries) are covered. Recently, Treasury sent an expert to work in the Ministry of Finance on debt management. Treasury has also been closely monitoring the World Bank and Asian Development Bank programs in Afghanistan.

Treasury is partnering with the government to promote private sector development in Afghanistan. I visited Afghanistan in September 2003, just two days after Afghan President Karzai signed the new banking law. This law allows foreign banks to operate, after several years of no formal banking services in Afghanistan at all. Treasury is also spearheading a U.S. government initiative to help establish industrial parks and encourage business growth in Afghanistan. Under Secretary John Taylor visited Afghanistan this February to assess progress on these initiatives.

Turning to Iraq, I want to emphasize that we continue to make meaningful progress on economic reform, despite a difficult security environment. For example, Iraq recently concluded the successful introduction of a new currency. Printing and delivering this currency on time was an enormous feat -- the equivalent of twenty-seven 747 plane loads of currency were delivered to Iraq and distributed to the public through approximately 240 exchange sites. By all accounts, the Iraqis have wholeheartedly embraced their new dinars, and confidence in the new currency remains strong.

At the G-7 Meetings in late February, we invited Iraq's Central Bank Governor, Sinan Shabibi, and Finance Minister, Kamel Gailani, to share their reform agenda. Both stressed their commitment to moving ahead with sound, market-oriented reforms that will underpin private sector-led growth, and described recent actions they have taken to

demonstrate their commitment. For example, Governor Shabibi recently announced the selection of three foreign banks to receive a license to operate in Iraq – a significant departure from the previous regime, where only locally-owned banks were permitted to do business in Iraq.

In addition, Governor Shabibi has liberalized interest rates on all domestic financial instruments – loans, deposits and securities – enabling lenders and borrowers to make their own decisions rather than having them determined by fiat and top-down directives, which used to be standard practice. Finally, the Governor announced the imminent passage of a new Central Bank law. This law, which has since been approved, not only confirms the independence of the Central Bank, but also prevents the Central Bank from engaging in inflationary financing of the government. These steps follow the adoption of a modern banking law, approved last fall, which contains many provisions designed to support the development of a strong, robust banking sector.

Other priorities include addressing Iraq's substantial debt problem, which we will be working with the other creditors to resolve as quickly as possible and encouraging the IMF and World Bank to provide their full range of support – in line with their commitments at last October's Madrid donors' conference -- to the Iraqi people. The World Bank recently established a trust fund for Iraq, and has met several times with Iraqi authorities to identify priority programs and projects under this facility. The World Bank plans to begin making disbursements under this facility by July 2004. This fund – which has already attracted \$1 billion -- will be financed by donors, and is in addition to the \$3-\$5 billion that the World Bank has committed to provide Iraq over a four year period once conditions for lending are met. The IMF is also laying the groundwork to provide financial and policy support for Iraq. At the Madrid donor conference, the IMF announced that total assistance could range from \$2.5 billion to \$4.25 billion over a three-year period. The IMF recently conducted initial policy discussions with senior Iraqi finance officials that begin the process for a financial and economic reform arrangement with the new government.

#### **Authorization Requests**

As part of the fiscal year 2005 budget, the Administration has requested \$1,492.7 million for contributions to the MDBs, \$200 million for debt reduction activities and \$17.5 million for technical assistance programs. Related to these funding requests, the Administration will be making a number of authorization requests.

Authorization will be sought for further contributions to the HIPC Trust Fund. In 2002, President Bush committed to fund a share of the additional multilateral financing requirements of the HIPC Trust Fund. Subsequently, the Administration pledged \$150 million to help meet the core financing requirements of the HIPC Trust Fund. Authorization is also requested to extend the authority for U.S. bilateral debt reduction under the HIPC initiative through FY2006. And reauthorization is sought for the Tropical Forest Conservation Act in order to continue providing debt relief for low and middle-income countries to support conservation of their tropical forests.

The Administration also has a pending request for Congressional authorization to implement two of the reforms of the North American Development Bank (NADBank) proposed by Presidents Bush and Fox. These reforms aim to enhance the performance of NADBank and its sister institution, the Border Environment Cooperation Commission (BECC). The proposed reforms requiring authorization are: (1) enabling NADBank to make grants and non-market loans out of its paid-in capital; and (2) extending the border region for NADBank/BECC operations on Mexico's side from 100 kilometers to 300 kilometers. We appreciate the quick action on this legislation in the House last year and hope for similarly swift action in the House this year on the newly-approved Senate bill.

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## White House Warms Up to Worker Aid

Outsourcing Controversy Prompts a Policy Shift

By Paul Blustein  
Washington Post Staff Writer  
Saturday, March 13, 2004; Page E01

For months, the Bush administration has been fighting a lawsuit brought by a group of computer programmers whose jobs were outsourced abroad, arguing that they don't qualify for government benefits aimed at people coping with layoffs caused by imports.

But now, in the furor over outsourcing, the administration is showing support for the program, called Trade Adjustment Assistance, that aids workers laid off from companies battered by foreign competition.

President Bush has been talking up the program in speeches this week, and Cabinet officers have been touting the big expansion the program got in 2002 -- even though it was congressional Democrats who insisted on the expansion, over Republican objections. Moreover, U.S. Trade Representative Robert B. Zoellick hinted this week that the administration might back a bill to expand benefits further, to service workers such as engineers, architects and telephone call-center employees, whose job losses to India and other countries have become a major source of voter anxiety.

The administration's new stance is part of a broader effort by the White House to combat Democratic attacks on the trade issue. Bush, Zoellick and other administration officials have started using the term "economic isolationism" to deride Democratic criticism of the administration's free-trade policies. At the same time, to defuse charges that they are insensitive to the Americans who suffer hardships amid the rough-and-tumble of the global marketplace, they are going out of their way to acknowledge the need to give such workers temporary income supplements, retraining and other support -- a point that Democrats have repeatedly stressed in the past as the price that must be paid for open markets.

The lawsuit brought by the computer programmers, however, poses an embarrassing counterpoint to the administration's efforts to show its concern. The case involves more than a dozen software workers from International Business Machines Corp. in New Jersey and Computer Horizons Corp. in Irving, Tex., whose jobs were moved to Canada and other countries over the past couple of years. The workers' efforts to obtain the recently expanded benefits under Trade Adjustment Assistance have been rejected by the Labor Department, which administers the program, on the grounds that they were not in the manufacturing sector -- that is, makers of "articles," as the law requires. The Justice Department is backing Labor's position in the case, which is before the Court of International Trade in New York.

Seizing on that case and others like it, Democrats are accusing the White House and Republican lawmakers of having deprived such workers of the chance for extra unemployment insurance and wage and retraining subsidies that laid-off manufacturing workers can get.

"Despite the obvious benefits of [Trade Adjustment Assistance], the administration fought tooth and nail against every penny, and against every provision" to expand the program in 2002, Sen. Max Baucus (D-Mont.) said in a speech last week. Baucus, the ranking Democrat on the Senate Finance Committee, spearheaded the effort to obtain a tripling in funding for the program, to \$1.3 billion, in exchange for Democratic backing for a trade bill the White House wanted. He noted in his speech that although he

fought to extend eligibility to service workers, "that provision was struck in the final version of the bill," adding, "As we read about service jobs moving overseas, we can see now that was a mistake."

The Labor Department could use its discretion under the law to give benefits to the computer programmers, according to Howard Rosen, a former congressional aide who helped draft the 2002 legislation. The problem, he said, is that the department is "nickeling and diming," a policy he warned would boomerang on the administration by undermining support for free trade.

But Mason Bishop, the deputy assistant labor secretary for employment and training, maintained that the department's implementation of the program simply reflects what Congress mandated. Although benefits can go to a computer programmer, or a cafeteria worker, who is laid off from a firm making an "article" affected by increases in imports or a shift in production to other countries, workers not employed by such firms are not eligible, according to Bishop. "The statute is very clear," he said.

Whatever the current law prescribes, the political environment is forcing the administration to consider a new Baucus bill that has obtained 24 Senate sponsors, along with similar legislation in the House, extending the program to service workers.

"I think that's something that we should examine very closely," Zoellick said Tuesday in response to a question from Baucus at a hearing about whether the White House would back the bill. "Now, frankly, one needs to look at the cost aspects of this as well. But my personal view is . . . one way or another this program or others -- you've got to help people adjust if you're going to require change."

Asked about the bill, a White House spokeswoman, Claire Buchan, said: "That's something that's being looked at."

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**Questions for the Record  
March 25, 2004 Testimony  
House Financial Services Committee**

**Representative Joe Baca**

**Question 1**

*In the last 3 years 2.8 million manufacturing jobs have been lost. California has lost 127,000 manufacturing jobs. Many of those jobs have gone overseas. By the year 2014, 3.3 million jobs will be moved overseas. The President says this is good for the economy. Chairman Greenspan has argued that workers can be confident that new jobs will replace the old ones they lost. But a recent study showed that the jobs created in California in the last two years paid on average 40% less than the jobs they replaced.*

*Last month I asked Chairman Greenspan how we can help those Californians who lost their job and can only find work that pays 40% less. He responded that "those workers who are most educated and have the most general skills are best positioned to take whatever jobs are created."*

*My question is how can California's workers expect to find jobs when the Administration has frozen the funds for job training and vocational training and capped college scholarships? Even Chairman Greenspan believes that workers need these programs to find good jobs.*

**Answer 1**

Maintaining and increasing economic growth is the key to increasing the number of good jobs in the economy. During the last three years, the Administration's tax reductions have been successful first, in keeping the 2001 recession from worsening substantially in the face of terrorist attacks, corporate malfeasance, and wars in Afghanistan and Iraq; and secondly, in promoting more rapid economic growth and enhancing job prospects.

Our econometric work suggests that without the tax cuts as many as 3 million fewer Americans would be working by the end of this year and the unemployment rate would be as much as 1.6 percentage points higher.

Recent employment gains show that our program is working. Employment has increased more than 1.4 million in the past nine months and initial claims for state unemployment insurance benefits have fallen nearly 20 percent from a year earlier

Still, there's a need to help workers going through transitions, and to make sure they have the training they need to compete in the global job market. That's why the FY05 Budget has proposed \$23 billion for job training and employment assistance and more than \$500 million for the President's Jobs for the 21st Century initiative to help prepare U.S. workers to take advantage of the better skilled, higher-paying jobs of the future, including

\$250 million in proposed funding targeted to community colleges to train workers for industries that are creating the most new jobs.

#### Question 2

*A recent study showed that the rise in the U.S. trade deficit with Mexico, which was caused by NAFTA, resulted in the loss of 880,000 U.S. jobs. 116,000 were from California alone. Most of those were high paying manufacturing jobs that couldn't compete with Mexican imports. Now we have the same problem with China. The Administration and even you Mr. Secretary have praised the benefits of outsourcing. You even stated that outsourcing helps the company's employees. But the Administration doesn't understand that outsourcing hurts real Americans.*

*A manufacturing firm from my district recently laid off over 100 workers. They couldn't compete with Chinese imports, which were unfairly cheap. And our exports were too expensive. That's over 100 workers who are now getting unemployment benefits and are wondering how they're going to clothe their family and feed their kids. The free trade deals and Chinese normal trading status hurts American workers. The Administration has cut TAA's fund authority by 29% and has not extended unemployment insurance.*

*What is the Administration doing to help these workers?*

#### Answer 2

The Administration believes that the best way to help workers who are competing in the global marketplace is to keep economic growth strong at home and to help make American companies more competitive.

Tax cuts played a vital role in helping to create an environment of growth and innovation. The President has also proposed reducing unnecessary regulations; making health care costs more affordable; reforming the legal system to cut down on frivolous lawsuits, and enacting a national energy policy that ensures an affordable supply of energy and reduces our dependence on foreign oil. All of these measures will ensure that Americans work in a high-efficiency economy.

But we must not restrict free trade. Free and fair trade helps create jobs at home by opening foreign markets to American exports -- as well as by encouraging foreign companies to set up operations in the United States. Foreign-owned firms directly employ more than 6.4 million workers in the U.S. -- jobs that might otherwise go to foreign workers -- and that does not include the millions of people who work at companies that supply parts and material to foreign-owned firms.

Free and fair trade helps to lower prices and increase choices for American consumers. Over the past decade, NAFTA and the Uruguay Round agreements have raised the standards of living of the average American family of four by up to \$2,000 a year, according to the Office of the U.S. Trade Representative.

Still, while we recognize the benefits of free and fair trade, we also recognize that any job loss from economic change is painful for some workers and their families. The President's FY 2005 budget commits significant resources to help displaced workers find jobs. Further, in 2002, the president signed a law expanding the Trade Adjustment Assistance program. It provides \$1.1 billion in FY 2005 for training and cash benefits for workers dislocated by increased imports or a shift of production to certain foreign countries.

Workers are also eligible to receive a Health Coverage Tax Credit covering 65% of the premium for qualified health insurance. Workers over 50 may be entitled to Alternative Trade Adjustment Assistance, which pays half the difference between their old wage and the wage they are receiving at new employment for up to two years and up to \$10,000.

### Question 3

*Remittance senders and receivers are often unaware of the full costs they are paying for money transfers. According to a recent Pew Hispanic Center study, about half did not know why they were charged additional fees. Less than one-fifth knew that differences between published exchange rates and the rates used in the transfer process could reduce the amount delivered. More than three quarters described themselves as lacking knowledge of the available options for sending remittances.*

1. *Given these stats, how would you rate the effectiveness of the existing financial literacy programs? What more can be done by the Treasury Department?*
2. *How can we make it easier for consumers to go to banks and credit unions, and use ATM and other forms of new technology?*
3. *How can we better promote the entry of new players such as banks and credit unions, into the market place for remittance services?*

### Answer 3

Financial literacy programs are an important tool to raise awareness among individuals and households on the range of financial services available to help improve their financial security. These programs help to "bank the unbanked", that is bring individuals into the financial sector through providing an overview of the role and functions of all financial institutions (e.g. banks, credit unions, and thrifts) and explaining how these institutions can be used to build wealth and save for the future. Factors that could explain why people do not use banks or credit unions can vary from not having access to these institutions in their communities to harboring distrust of financial institutions. Providing access to financial literacy and education programs through public and private sectors will help raise the confidence of individuals, demystify the role of financial institutions and help people maximize their wealth and save for the future.

A number of government initiatives are underway to "bank the unbanked" population in the United States, which by some estimates include 22% of all low-income families or

over 8.4 million families earning under \$25,000 per year. U.S. Treasury in particular has been very proactive in making consumers aware of the range of personal finance programs and materials – many at no costs – that are available to the public here in the United States. In May 2002, Treasury established the Office of Financial Education (OFE), under the leadership of the Assistant Secretary for Financial Institutions and the Deputy Assistant Secretary for Financial Education, to ensure access to financial education programs in the United States. The OFE focuses on four key areas: basic savings, credit management, homeownership, and retirement planning. In addition, the OFE is responsible for Treasury's financial education policymaking and for coordinating financial education initiatives within the Department and its bureaus. Secretary Snow also chairs the Financial Literacy and Education Commission, an interagency commission established to promote financial education and improve the financial literacy of all Americans.<sup>1</sup> Other activities that Treasury has been involved in include the launch of an online directory of all ongoing US government efforts in financial literacy and the provision of \$8.4 million in grants to connect low- and moderate-income individuals with mainstream financial services through the "First Accounts Program". Other U.S. regulatory agencies, such as the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System conduct regular financial literacy workshops to educate individuals on the benefits of using banks for their financial needs.<sup>2</sup>

To highlight how Treasury has focused on ensuring measurable results from the work on financial education, several essential criteria have been identified that would most likely lead to effective financial education programs, among which are incorporating performance measures to evaluate results, taking into account language and cultural issues of the program's audience, and continuing to work with participants after they complete the "classroom" component of the program. Treasury created the Financial Education Certificate of Recognition for programs meeting these standards, with the U.S. Treasurer awarding the first Certificate in June 2003. Through these types of initiatives and events, the Office will continue to deliver important financial education information to both the general public and work towards ensuring that financial programs are indeed having a positive impact on the community.

The private sector can also play a valuable role in the area of financial literacy. A growing number of U.S. financial institutions are recognizing the need to reach out to potential clients to build upon their clientele base. For example, Citibank has a financial education program which works with individuals to help them understand how to use financial tools to meet their goals.<sup>3</sup>

Through a combination of public and private sector efforts, financial education can be used to heighten awareness of the benefits that can be derived from financial

<sup>1</sup> Treasury also launched an online directory of all ongoing U.S. government efforts in financial literacy (see <http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/resources/index.html>) in August 2003.

<sup>2</sup> See <http://www.federalreserveeducation.org/fined/> for more information.

<sup>3</sup> <http://www.citigroup.com/citigroup/financialeducation/index.htm>

management and dispel any myths or fears of using banks or credit unions, thereby helping individuals make informed decisions on what types of financial services they should be using to maximize their wealth.

One of Treasury's objectives in the area of remittances is to ensure that affordable remittance services are readily available to consumers. Through a combination of efforts to improve awareness of and access to financial services, modernizing financial infrastructure to ensure efficiency and ensuring competition and transparency in financial services, costs for remittances services can be lowered and made more affordable for many individuals and households that depend on these services.

#### Question 4

*As you know, competition is critical if we are to keep the costs of remittances low. Competition will only occur if we promote the entry of new players, like credit unions and banks, into the market place remittance services. Unfortunately these new players are facing the limitation of infrastructure and regulatory barriers, on the receiving end and on the sending end.*

1. *How can we help new players create this infrastructure so that they can better compete on the level of location and convenience as they do on the basis of price?*
2. *What has the Treasury Department done to help credit unions and other financial institutions better compete in foreign countries?*

#### Answer 4

The Administration places great importance on market competition as a guiding principle in all industries, including financial services. Creating a level playing field is critically important to ensuring broad-based competition at all levels and that consumers have access to low cost, efficient financial services in the market.

One important step is to minimize any regulatory barriers that prevent market entry and that may impose excessive burden on institutions and consumers. This issue is particularly problematic on the receiving end, that is, in developing countries that have financial sectors all at various stages of development. Bilateral and multilateral assistance and policy dialogues are concrete ways to work with governments to overcome these regulatory impediments. We are working to specifically identify, in consultation with our domestic financial services providers, regulatory barriers that may exist abroad that limit their ability to provide remittances.

Modernizing financial infrastructure and building new infrastructure based on technological innovations can strengthen how financial institutions can deliver low-cost, fast and efficient products that meet consumer demand. One example is the work that the Federal Reserve is pursuing to establish international automated clearinghouse systems with certain countries.

Further to our efforts to support competition, the Treasury Department has financial advisors in several countries throughout the world who work to assist reform-minded Finance Ministers and Central Bank Governors on the means to strengthen financial regulatory and supervisory practices and to ensure a level playing field for all institutions. A goal of theirs is to help ensure that the flow of remittances is handled in a trustworthy and transparent manner, and thereby help boost the confidence in the banking system and help protect against fraud, money-laundering and the flow of funds into the hands of terrorists. In addition, such transparency efforts should have a positive affect on encouraging a more competitive environment for financial institutions in these countries.

As another example, the private sector is also introducing a host of innovative products in recent years. These products are designed to attract repeat business and to establish long-term relationships with these clients, and include a range of 'stored value' cards, ATM cards, direct transfers of funds between bank accounts, and direct deposit of funds to the recipient's account from non-traditional drop-off points (e.g., convenience stores). These products are available only in select countries that have supporting infrastructure and regulatory frameworks and from a handful of cities in major economies (including Spain, Japan, and the United States).

Promoting competition among financial service providers works. In December of 2001, the Department of the Treasury and the Department of State began working collaboratively with the Government of Mexico under the auspices of the Partnership for Prosperity to, among other things, promote competition in the U.S.-Mexico remittances market. In the months since, we have seen several major banks enter the remittances market, expand their product offerings in the market, or reduce their fees. Market observers seem to agree that costs in the U.S.-Mexico market have been falling, and are generally lower than the costs of sending money from the United States to other countries in Latin America and the Caribbean. On the multilateral front, the World Bank, the Inter-American Development Bank and the Asian Development Bank have been actively examining remittances around the world. We believe that their efforts are helping to increase understanding on the role and importance of remittances and is an important step toward increasing competition.

**Representative Spencer Bachus**

**Question**

*Given that the London Financial markets are comparable to those in New York and collectively the two represent the deepest, most liquid capital formation markets in the world, why would the EU member states attempt to place new restrictions on the London Marketplace through the FSAP?*

*In their goal of uniformity, is the EU taking the lowest common denominator approach that in effect protects less developed, less competitive, over-regulated markets?*

*Won't this further impact Europe's anemic growth rate?*

*Wouldn't improved economic growth and capital formation within Europe have benefits for the U.S. economy and U.S. companies?*

**Answer**

The United States fully supports the EU's Financial Services Action Plan and the goal of creating an integrated European capital market. This view is firmly rooted in one of the central aims of U.S. foreign economic policy, which is to promote a strong global economy. An efficient capital market is a critical pillar for robust growth. Several studies have concluded that the creation of a truly liberal and integrated European capital market through Europe's Financial Services Action Program (FSAP) could raise EU growth by more than one percent per annum in a decade's time.

Europe is making progress under the FSAP in building an integrated capital market. Compromises reflecting different European country practices are an inevitable part of the FSAP process. (For example, the final version of the Investment Services Directive permits internal order matching and price improvement for transactions greater than "retail" size but trades retail size and smaller must go through stock exchanges.) But Brussels, the Parliament and the member states are working to instill as liberal a vision as possible for the European capital market. While this vision may not be identical to the perspectives of the New York or London markets, its implementation is a work in progress, it represents an important step forward and the extension of this vision at the European-wide level through the so-called "passport" will contribute to the growth of global capital markets.

**Representative Scott Garrett****Question 1**

*In regard to the recently created Millennium Challenge Account (MCA), I believe that the MCA presents some dynamic and responsible new ways in how best to distribute foreign aid. However, it appears that the MCA and USAID seem to accomplish many of the same objectives and have many duplicative functions. What currently is being done to fix this overlap?*

**Answer 1**

This question is best answered by USAID and the MCC. That said, the Treasury Department recognizes that a central purpose of official development assistance -- whether from bilateral sources or the multilateral development banks (MDBs) -- will continue to be to meet the most urgent needs in poor countries, including those not selected for MCA assistance. We have to provide aid to support health, education, HIV-AIDS, clean water, and other pressing needs in a wide range of poor countries. The U.S. Agency for International Development and the MDBs will continue to address these development needs. The MCA will focus on a relatively small number of countries with the best performance and the strongest commitment to self-led reforms that will catalyze economic growth. The various development agencies, working together, will give us a balanced approach to development assistance and one in which they can learn from each others' experiences.

**Question 2**

*Will the U.S. performance standards used in the Millennium Challenge Account be consistent with the multilateral standards which are advocated by the Treasury Department? Please describe any efforts to coordinate these bilateral and multilateral development efforts.*

**Answer 2**

The Millennium Challenge Account is based on the principle that assistance is most effective when it is provided to countries that are committed to and successful in implementing sound economic and social policies. In a sound policy environment, assistance attracts investment because it increases private sector confidence and helps to provide public services (e.g., education and infrastructure) that investors need. On the other hand, providing assistance to countries that are not committed to good policies can actually be counterproductive, particularly when provided in the form of loans which add to countries' debt burdens. Consistent with this, the Treasury Department has secured reforms in IDA, the AfDB, the AsDB and the IDB to allocate concessional resources on the basis of country performance, and has achieved commitments for similar reforms in the GEF-3 and IFAD-6 negotiations.

The purpose of these reforms is to put money where it has the best chance to do good. The established performance-based allocation systems assess performance, based on measures of various indicators, with a strong emphasis on good governance. IDA's system is the most advanced performance-based allocation mechanism. For the IDA-13 period, 17 countries will have their lending allocations significantly reduced due to poor governance ratings. For every \$1 per capita lent to the median IDA performer, it is expected that \$1.78 per capita will go to the best performers and \$0.38 will go to the poorest performers. This system means that high performing IDA-only countries receive over 4.5 times as much per capita in IDA funding as poor performers.

We are working closely with the Millennium Challenge Corporation on a wide variety of matters as it moves forward in implementing its assistance program so as to ensure consistency and coherence in our approach to our policies and practices in the bilateral and multilateral development institutions.

### Question 3

*One of the Meltzer Commission recommendations was that the IMF should return to its core mission by restricting its lending to short-term liquidity needs (4 to 8 months in duration) rather than long-term concessional lending. What are your thoughts on this issue? How would you fit the 3-year Argentina agreement completed last fall within this recommendation?*

### Answer 3

Treasury largely agrees with the thrust of the Meltzer Commission recommendation. We have strongly supported the IMF's efforts to end the prolonged use of IMF resources. We have similarly supported the trend in the IMF away from country support via a three-year Extended Fund Facility, which tends to focus on longer-term structural reform, in favor of the generally shorter-term Stand-By Arrangement. Treasury also supports the move to refocus the IMF on its core mandates. Argentina represents a special case due to its debt restructuring process and the depth of its economic crisis. The IMF program is providing the medium-term macroeconomic framework needed for Argentina to work with its creditors to reach a successful debt restructuring deal. The IMF program is also supporting Argentina's recovery from its crisis by anchoring its fiscal and monetary policies and supporting the GoA's commitments to deal with the major structural impediments to sustaining growth.

### Question 4

*One key aspect of regulatory cooperation and transparency arises in the accounting field. Two different methods for valuing assets generally and derivatives in particular seem to be emerging: one in the United States within the Financial Accounting Standards Board (FASB) and the other in Europe through the International Accounting Standards Board (IASB). I understand that this issue often is raised within the context of the U.S.-E.U. dialogue. Do you believe that differences in accounting/valuation standards can*

*adversely affect the international competitiveness of U.S. companies or U.S. financial markets? Is the U.S.-E.U. dialogue the appropriate forum for discussion and resolution of these issues?*

**Answer 4**

The prospect of converging U.S. Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) is a goal that the U.S. and EU believe would be very valuable. Convergence would eliminate the need for reconciliation of financial statements prepared according to one set of accounting standards to another and would greatly add to the transparency of financial reporting by global issuers. Convergence would significantly enhance investor protection in all jurisdictions since investors would be able to make easy comparisons of companies in all markets. Finally, increased transparency would assist regulators in carrying out their oversight responsibilities.

As you are aware, the work to converge U.S. GAAP and IFRS is underway between FASB and IASB. The SEC and its staff and the European Commission are fully supportive of this project, but it will take time to achieve.

I believe the U.S.-EU Dialogue is one important forum for discussing the issues of convergence and for lending support to the standard-setting bodies to continue and persevere in their convergence project. These bodies are and must remain independent and they must have transparent processes for developing standards. Such processes necessarily include a mechanism for collecting and taking into account the views of the users of the standards.

IAS 32 and 39 are two important standards pertaining to the treatment of financial instruments, including derivatives. U.S. GAAP already contain similar standards. The issues raised by these standards are quite complex and challenging. I hope and expect that the IASB, the Commission and the users of these standards in Europe will find ways to bridge their differences and move forward with IFRS, and in turn that FASB and IASB will be able to resolve any differences in the treatment of derivative instruments.

**Representative Peter King****Question 1**

*How do you expect the US-EU dialogue to evolve as financial market integration continues across the Atlantic? How do you expect the dialogue to change after the accession of the Central European countries next month? Should a regulatory dialogue exist at the G-7 level so that non-European regulators can participate? What do you see as the critical issues that will need to be addressed within the US-EU dialogue in the near future?*

**Answer 1**

Several events are occurring that signal a change in the course of the U.S.-EU Dialogue. Ten new member states have acceded to the EU, and the European Parliament passed 39 of the 42 Financial Services Action Plan Directives before going out of session. Elections were held recently to establish a new European Parliament, and a new, expanded European Commission will be appointed this autumn.

Looking ahead, the work of the Financial Markets Dialogue will turn to consistent implementation, careful monitoring and enforcement of the various FSAP directives by member states. In addition, there will be other issues to address in the upcoming work of the Dialogue. These include the promotion of convergent accounting standards on both sides of the Atlantic, improving corporate governance and strengthening investor protections and confidence, and reducing costs of investment in Europe by creating a European-wide system of clearance and settlements.

There already exists a regulatory dialogue at the G-7+ level. The Financial Stability Forum (FSF), established in 1999, meets twice yearly at the “deputies” level to discuss a range of financial and regulatory topics, including a regular review of vulnerabilities to the international financial system. From the G-7 countries, three representatives attend – finance ministry, central bank and financial supervisor—while Australia, the Netherlands and Singapore send one representative each and Hong Kong sends two. Several international standard setting bodies send high level representatives as well. We have found the FSF to be a useful addition to the international fora we regularly attend.

**Representative Barbara Lee**

**Question 1**

*Mr. Secretary, I just want to thank you again for partnering with us last year on the subject of Haiti and ultimately helping us to get the Inter-American Development Bank to release the loans that were so desperately needed in Haiti. I'm proud to say that my legislation, H. Con Res 78, became the U.S. policy toward Haiti without even having to become law.*

*As you know the political climate in Haiti has been very volatile over the past few months and it is my hope that the facts regarding President Aristide's departure will soon come to light.*

*To date, the Inter-American Development Bank is still disbursing funds to Haiti's now interim government; however, the disbursements for project based loans have faced difficulty due to the desperate need for contractors, builders and engineers.*

*Mr. Secretary, I have drafted legislation called, "The New Partnership for Haiti Act", H.R. 3386. This bill would help the Haitian people rebuild their health infrastructure by incorporating the work of the U.S. Army Corp of Engineers with interested NGO's and the Government of Haiti to educate and build up basic health facilities.*

*The bill would also develop a peace-corps like program for Americans, particularly Haitian Americans interested in returning to Haiti and transferring their knowledge and skills to the Haitian community, while participating hands-on by building roads, wells, hospitals, and sanitation systems.*

*Mr. Secretary, can you comment on my legislation and what you believe will help Haiti execute the infrastructure development that has now finally received the funding we fought so hard for together?*

**Answer 1**

Thank you for your continued attention to Haiti. As you know, Haiti is the poorest nation in the Western Hemisphere and faces enormous development challenges. The Inter-American Development Bank (IDB) is working with the Government of Haiti (GOH) to build basic infrastructure, rehabilitate secondary and tertiary roads, improve health and educational services, and provide clean water. The IDB is providing over \$320 million in project loans to Haiti to support these efforts. These loans will disburse over a period of years as work is performed on each project and as the GOH meets the defined technical conditions for subsequent disbursements -- conditions agreed upon by both the GOH and the IDB.

The IDB is projecting disbursements of \$18 - \$33 million to Haiti this fiscal year, ending September 30, \$85 million in FY05 and \$90 million in FY06. The political crisis that preceded the resignation of former President Aristide greatly slowed project

implementation. After former President Aristide's departure, the IDB launched a portfolio review in April and agreed with the Interim GOH on an action plan to restart project execution which had been halted by the looting of ministries and the temporary shutdown of government operations. Lack of technical capacity to execute projects has also slowed disbursements. To remedy this, the IDB is providing \$1.7 million in technical assistance grants to build capacity and help the government implement these projects.

There is continued need for efforts to build technical capacity in Haiti to develop expeditious project execution. The needs summarized in H.R. 3386, "the New Partnership Act for Haiti" highlight the importance of such action. As described in the legislation, Treasury's Office of Technical Assistance (OTA) has provided TA support to nations throughout the world. Treasury is currently working with the Interim GOH. OTA sent two technical assistance missions to Haiti in April/June to assess the government's needs for support in addressing budgetary policies and anti-corruption issues. Another OTA team will travel to Haiti later this month to examine organizational, human resource, tax collection and audit capacities. OTA will determine the appropriateness of placing a resident or engaging intermittent advisors in Haiti based on the outcome of these missions and the availability of funds. Treasury will continue to work closely with the IDB to support capacity-building and provide financial assistance to meet the Haiti's vital needs.

#### **Question 2**

*Expanding HIPC Debt Relief: Mr. Secretary, last year in the Global AIDS legislation that Congress passed, and the President signed into law, we included language encouraging you to engage with the World Bank, the IMF, and the other multilateral development institutions to modify and expand the Enhanced HIPC (Heavily Indebted Poor Countries) Initiative to provide greater debt relief, in particular for countries suffering a public health crisis like the HIV/AIDS pandemic.*

*This language was added on the Senate side after much wrangling by Senator Biden and Senator Santorum. While I know that the Administration was successful in weakening the language, I want to know what if anything you have done in response.*

#### **Answer 2**

The Treasury submitted its report on the ideas proposed in the HIPC portion of the Global AIDS legislation in October of last year. We concluded that the specific proposals were not advisable both on policy and cost grounds.

The United States has been a strong supporter of substantial debt reduction for HIPC countries committed to economic reform. Twenty-seven countries have now reached their HIPC Decision Points, enabling them to benefit from relief on debt payments coming due. For these 27 countries, creditors have committed to reduce over \$51 billion (nominal terms) under the HIPC framework. The United States is providing 100 percent bilateral debt reduction on claims contracted before the June 1999 G-8 Economic

Summit. We have also pledged a total of \$750 million, of which appropriations of \$675 million have been provided, for the HIPC Trust Fund which helps cover debt reduction costs of the regional multilateral development institutions. The President's Budget for FY 2005 requested \$75 million for the HIPC Trust Fund.

The United States has also taken action to support both debt sustainability and the fight against HIV/AIDS in the context of the IDA-13 Agreement. Currently, HIV/AIDS programs in IDA-only countries are 100 percent financed through grants. The Bush Administration continues to push for more of the funding from the international financial institutions to be in the form of grants rather than loans. We also continue to examine, and to discuss with our G-7 partners and within the international financial institutions, broader issues related to debt relief, new assistance, and debt sustainability.

### Question 3

*While I am supportive of new energy being devoted and new initiatives being undertaken in the area of foreign assistance, I also have several lingering concerns about the MCC.*

*For one, I am concerned that this two-tier approach creates haves and have-nots among the recipients of US foreign assistance, that many of the truly poor countries will fall short of MCC criteria and will consequently receive little US aid, despite their great need. I am especially worried about the continent of Africa in this context.*

*Can you tell me what African countries are considered eligible to participate? What countries are considered close to eligibility and what does that mean?*

*I also worry that many countries that are making real progress in limited but crucial areas – such as combating HIV-AIDS, for example – will not be eligible for MCC assistance and will not receive sufficient assistance. How can we work together to expand access to this program?*

*What mechanisms are being undertaken to increase the number of countries, especially the number of IDA-eligible, the poorest of the poor countries, that will qualify for eligibility?*

*Finally, I am also concerned that we not rob Peter to pay Paul in the creation and funding of the MCC: this money must not come from other worthy projects to fight disease, promote education, provide job training and economic opportunities, and many other important undertakings.*

### Answer 3

The goal of the Millennium Challenge Account (MCA), administered by the Millennium Challenge Corporation (MCC), is to reduce poverty through economic growth in those poor countries where the most favorable policy conditions exist. For the FY04 fiscal year, 63 countries eligible to borrow from the International Development Association

(IDA), and which have per capita incomes below \$1,415, were considered. Among African countries, this list includes: Angola, Benin, Burkina Faso, Cape Verde, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Djibouti, Eritrea, Ethiopia, The Gambia, Ghana, Guinea, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Tanzania, Togo, Uganda, and Zambia. Of these African countries, eight were selected to be eligible to apply for MCA assistance: Benin, Cape Verde, Ghana, Lesotho, Madagascar, Mali, Mozambique, and Senegal.

In FY'05, all countries with incomes below \$1,415 will be considered, which adds another 10 countries. In FY'06, all countries with incomes between \$1,415 and \$2,935 will be eligible to compete as a separate pool. This group currently consists of 29 countries.

The Millennium Challenge Corporation selects only countries for potential MCA funding that are, in President Bush's words, "ruling justly, investing in their people, and encouraging economic freedom." For the FY04 selection process, the MCC used 16 objective indicators to measure country performance on these three criteria; that resulted in the selection of 16 countries: the eight African countries named above as well as Armenia, Bolivia, Georgia, Honduras, Mongolia, Nicaragua, Sri Lanka and Vanuatu.

Pursuant to the MCC authorizing legislation, a "threshold" program is being developed by the MCC and USAID under which a limited amount of MCA funding will be available for targeted programs in countries deemed close to eligibility. There currently is no list of countries which would receive funding under this program. The objective of the program is to improve the policy performance of certain countries to enhance their chances for selection in the future which would increase the number of countries that qualify.

With respect to programs in countries that are not selected, we recognize that a central purpose of official development assistance -- whether from bilateral sources or the multilateral development banks (MDBs) -- will continue to be to meet the most urgent needs in poor countries, including those not selected. The U.S. Agency for International Development and the MDBs will continue to address these development needs, in areas such as health, education, HIV-AIDS, clean water, and other pressing needs. The MCA will focus on a relatively small number of countries with the best performance and the strongest commitment to self-led reforms that will catalyze economic growth. The various development agencies, working together, will give us a balanced approach to development assistance.

## Representative Carolyn Maloney

### Questions

*As you know, a key to successfully combating terrorism is tracking down the financial resources of terrorist organizations. Many countries have lax banking laws which enable terrorist organizations to "park" their funds with little or no detection.*

*What steps is the Administration taking to obtain greater cooperation from foreign countries in our efforts to get at terrorist financing?*

*Are our friends and allies in the Middle East and Persian Gulf region working with us to tighten their banking laws?*

*Please tell us which countries are being most cooperative and which ones are not?*

### Answer

The fight against terrorist finance is truly a global effort. The interconnected nature of financial institutions means that we must, and we do engage with our international partners to deny terrorists access to the international financial system.

We work with our international partners bilaterally and through multilateral fora such as the G7, the G20, the United Nations (UN), the International Monetary Fund (IMF), the World Bank, and the Financial Action Task Force (FATF). A number of key landmarks in those efforts are:

- FATF Standards: In October 2001, the international community called on the FATF – the recognized standard setter for anti-money laundering (AML) regimes – to expand their focus to combating terrorist finance (CTF). The FATF developed Eight Special Recommendations that focused on specific vulnerabilities utilized by the financiers of terrorism. The United States took a leading role in this widening of the FATF's responsibilities, in the development of the Special Recommendations, and in drafting the interpretive guidance on how countries should implement the Recommendations.
- G7/G20 Action Plans: In October 2001, the G7 Finance Ministers issued an action plan that set the framework for the first stage of international efforts in the fight against terrorist finance. Subsequently, the G-20 (as well as APEC and the meeting of the Western Hemisphere Finance Ministers) developed similar documents pledging their members to specific actions in this battle. The G7, G8 Heads of State, and the G-20 – with strong US participation - have all continued close monitoring of their collective and individual performance in the international struggle against terrorist finance in general and against these action plans in particular.

- **UNSCRs:** United Nations Security Council Resolutions create international obligations for UN member states and are thus a key weapon against terrorist finance. Well before September 11, 2001, UNSCR 1267 mandated asset-freezing actions against members of al-Qaida and the Taliban; with US support, this obligation has been renewed and strengthened with successor resolutions. UNSCR 1373, passed on September 28, 2001 with strong U.S. support, further calls on all member states to freeze the assets of all terrorists.
- **IMF/WB Assessments:** The United States has been very active in promoting the deeper engagement of the IMF and WB in the war on terrorist finance, especially in the area of improving international AML/CFT regimes. The U.S. has led efforts to have the Bank and Fund integrate comprehensive assessments of member country AML/CFT regimes into their regular reports on country financial sectors. These assessments are based on the FATF standards and are conducted using a common methodology worked out by the FATF and the IFIs.
- **CTAG Technical Assistance:** G8 Heads of State, meeting in Evian, France, in June, 2003, created the Counter-Terrorism Action Group (CTAG) to help coordinate technical assistance to countries with weak AML/CFT regimes. CTAG works in close collaboration with the FATF to identify priority countries.

The U.S. and the international community have been working with countries in the Middle East and Persian Gulf to significantly strengthen AML / CFT regimes throughout the region:

- The Gulf Co-operation Council (GCC) is a member of the FATF, and all of its member states undergo rigorous mutual evaluations of their legal, regulatory, and institutional frameworks relating to money laundering and terrorist finance. In September 2003, a FATF mutual evaluation team, led by the head of the U.S. delegation to the FATF, conducted an in-depth review of Saudi Arabia's overall AML/CFT regime. This review included an extensive on-site examination. The willingness to undergo this assessment represents a new commitment to openness by Saudi authorities and an opportunity to benefit from the insight of international AML/CFT experts. The FATF is in the process of completing the assessment, and we look forward to the FATF's issuance of a summary report in June.
- In June 2002, Israel and Lebanon were both removed from the FATF's Non Cooperative Countries and Territories (NCCT) list, indicating significant improvements in their AML/CFT regimes.<sup>4</sup> Lebanon has since hosted several regional seminars on strengthening regional AML / CFT regimes, including one earlier this month in which Treasury participated.

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<sup>4</sup> For more information on the deficiencies addressed by Israel and Lebanon, please see the June 2002 FATF Review on NCCTs, available at [http://www1.oecd.org/fatf/pdf/NCCT2002\\_en.pdf](http://www1.oecd.org/fatf/pdf/NCCT2002_en.pdf).

- In February 2004, the FATF removed Egypt from the NCCT list owing to Egypt's development of a comprehensive AML regime. In keeping with past practice, the FATF will continue to monitor the ongoing implementation of these reforms in Egypt for the next year. Egypt is also working with the international community to bolster its CFT capabilities and recently cooperated with the FATF in completing a terrorist financing technical assistance needs assessment report that will be used as a basis for strengthening its counter-terrorist financing capabilities.
- We anticipate a fall 2004 launch of a new Middle East / North Africa FATF-style regional body (MENA FSRB), which will provide an institutional vehicle for continued AML / CFT development across the region. The U.S. expects to join this new body as an observer country.

These are just a few of the ongoing developments that reflect substantial AML / CFT progress across the region. At the same time, we will continue to take action as necessary to protect our financial systems from countries and institutions that continue to present terrorist financing or money laundering risks. As you know, Treasury recently designated the Commercial Bank of Syria and its subsidiary Syrian Lebanese Commercial Bank as a financial institution of "primary money laundering concern" under Section 311 of the USA PATRIOT Act, which indicates that Syria needs to take significant action to clean up its financial sector.<sup>5</sup> Altogether, our actions reflect an aggressive and balanced approach to continue encouraging positive change in the region.

Our efforts in working with the international community to strengthen AML / CFT capabilities are also producing meaningful results on a global basis. All except a handful of countries worldwide have expressed their support for the war against terrorist finance. 170 have issued blocking orders against terrorist financiers. Over 100 have changed their AML laws since September 11, 2001. Other countries, while generally supportive of the global effort, have requested technical assistance in designing and implementing the changes needed to bring these laws into fuller harmony with the international standards set by the FATF. CTAG is working actively with the FATF, the G7 and other TA donors and providers to coordinate such efforts.

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<sup>5</sup> For more information on the basis and proposed special measures of Treasury's Section 311 designation of the Commercial Bank of Syria, please see Treasury's May 18, 2004 notice of proposed rulemaking in the Federal Register, available at [http://www1.oecd.org/fatf/pdf/NCCT2002\\_en.pdf](http://www1.oecd.org/fatf/pdf/NCCT2002_en.pdf).